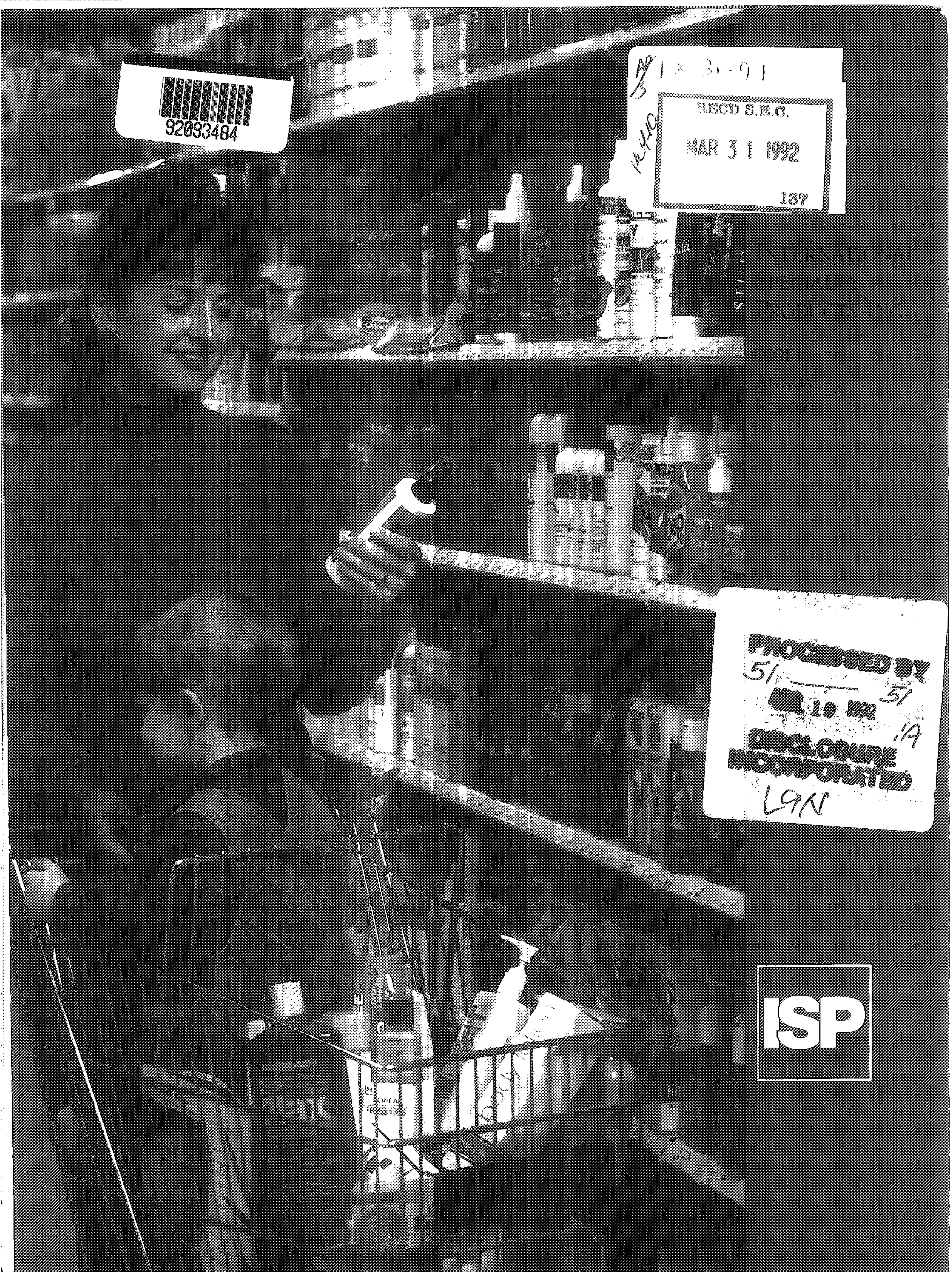


ISP

ABOUT THE COMPANY

International Specialty Products is one of the world's premier specialty chemical companies. Using proprietary technology, ISP makes products that are key ingredients in branded personal care, pharmaceutical, food and beverage, agricultural, and industrial products manufactured by more than 6,000 of our customers worldwide. The Company's specialty derivative chemicals provide consumer products with their key performance characteristics.

1991 represented ISP's ninth consecutive year of increased sales and earnings. The Company achieved these results through a combination of highly flexible manufacturing, a spirit of innovation, close ties to customers, a rapid response, an in-depth understanding of customer and end user technology, high quality standards, and the continued expansion of its aggressive global marketing program. The Company sells its products in 72 countries, with almost 60 percent of its specialty derivative chemicals sales coming from outside the United States.

ISP's Mineral Products business is a leader in the sale of colored, ceramic coated granules for use in the manufacture of asphalt roofing shingles.

In a public offering in July 1991, ISP sold approximately 19.4 million shares of common stock. The Company's stock is traded on the New York Stock Exchange under the symbol "ISP".

Contents

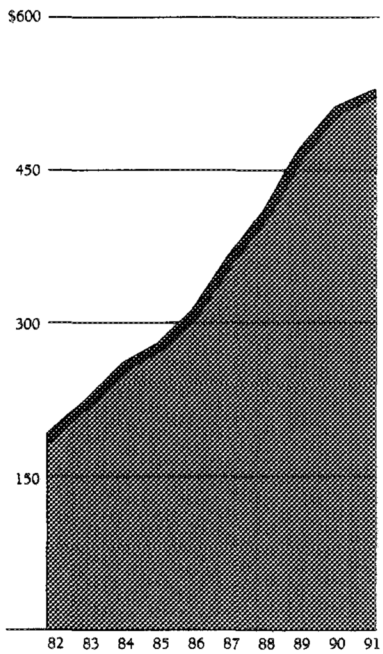
On the Cover:

ISP specialty derivative chemicals are key ingredients in thousands of branded consumer products, including cosmetics, personal care, and pharmaceutical and health-related products.

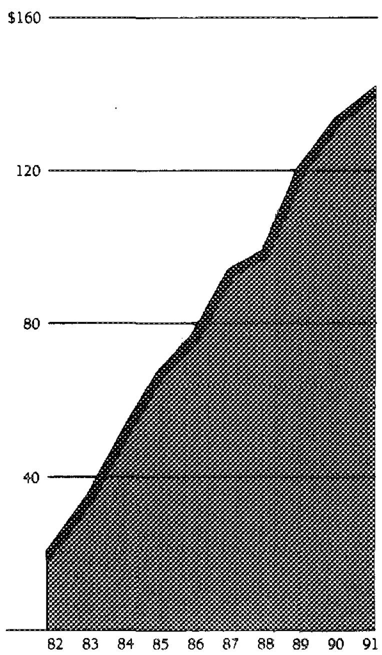
Financial Highlights

(Thousands of Dollars, Except Per Share Amounts)	1991	1990
Net sales	$525,786	$511,652
Operating income	$140,522	$133,056
Income before income taxes	$ 78,968	$ 45,323
Net income	$ 50,855	$ 30,768
Earnings per common share	$ .56	$ .38

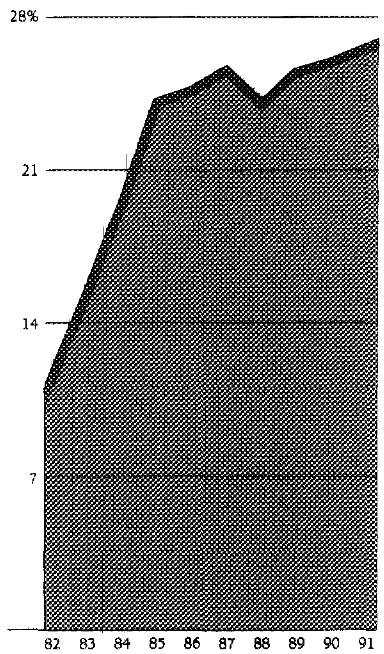
Net Sales
(In millions of dollars)



Operating Income
(In millions of dollars)



Operating Income as % of Net Sales



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FELLOW SHAREHOLDERS:

It is with a sense of pride that we report on the Company's 1991 performance in my first Annual Message since ISP's initial public offering last July. For notwithstanding a difficult economic environment both in the United States and abroad, the Company recorded in 1991 its ninth consecutive year of increased sales and operating income while achieving a host of other accomplishments as well.

ISP's re-emergence as a public Company after more than two years of private ownership was motivated in large measure by our conviction that the increased operating and financial flexibility associated with a deleveraged capital structure would enable ISP to take full advantage of a wide range of attractive growth opportunities. And in this connection, ISP's future success should be measured by the extent to which we are able to successfully exploit these opportunities in the months and years ahead.

1991 FINANCIAL RESULTS

For the twelve-month period ended December 31, 1991, net income was $50.9 million (56 cents a share), compared with net income of $30.8 million (38 cents a share) for the previous year. Operating income increased from $133.1 million in 1990 to $140.5 million in 1991, while revenues were $525.8 million compared with $511.7 million in 1990.

For the fourth quarter of 1991, net income was $10.2 million (10 cents a share) versus $2.4 million (3 cents a share) for the 1990 period. Sales for the fourth quarter were $122.4 million, compared with $125 million for the same period a year earlier.

The Company's record breaking operating performance was attributable to a 7 percent increase in the operating income of specialty derivative chemicals (which was the result of an improved product mix and higher pricing as partially offset by additional selling, general, and administrative expenses, increased costs associated with new product programs, and an unfavorable foreign exchange impact) and an 11 percent increase in the operating income of mineral products.

OTHER FINANCIAL HIGHLIGHTS

With one of the principal objectives of ISP's initial public offering being the deleveraging of the Company's capital structure, ISP was able, after applying the net proceeds of the offering (more than $280 million) to pay down debt,-to reduce its leverage ratio from more than 80 percent to slightly less than 50 percent. ISP's strong financial position was given recognition earlier this month when the Company successfully completed a public debt offering, consisting of $200 million of seven-year, senior notes carrying a fixed interest rate of 9 percent.

The success of the bond offering, initially proposed in the amount of $150 million and increased due to strong demand, provides evidence of ISP's favorable standing in the investment community. Moreover, we expect that ISP's remaining bank debt, which has been classified as an HLT (highly leveraged transaction) credit since ISP's parent, GAF Corporation, went private in March, 1989, will have its HLT designation removed at the end of the first quarter—thereby enabling ISP to refinance its remaining bank debt on more advantageous terms.

ISP'S GROWTH STRATEGY

ISP's future growth strategy is based on three principal elements:

- New products and new applications for existing products;
- Increased geographic penetration of overseas markets and the continued globalization of the Company's business; and
- A program to make niche acquisitions of businesses and product lines closely related to our own.

New Products and Applications

ISP substantially increased its commitment several years ago to its new product development program and

Samuel J. Heyman, Chairman of the Board and [illegible] Officer (left), and Thomas C. Bohrer, President and Ch[illegible]ficer.

established as a strategic objective the goal of generating at least 25 percent of the Company's annual sales and profits from new products and applications developed in the prior five-year period. To that end, ISP continued to expand its research and development programs in 1991 and is currently in the process of hiring a substantial number of additional scientists, with the objective this year of increasing the size of its research and development staff by more than 15 percent. This not insubstantial increase comes on the heels of an average per annum increase in R&D expenditures since 1983 of more than 12 percent, and should help to sustain and indeed accelerate an R&D effort which is currently enabling ISP to develop one new product and some ten new applications each month.

Examples of several new products and applications developed this past year which should begin to make a contribution to sales and profits in 1992 are as follows: an exciting new application for ISP's line of environmentally sound solvents, Woodfinisher's Pride, a consumer paint and varnish remover for do-it-yourself homeowners, which has met with such enthusiastic consumer response that it is now being sold in more than 6,000 retail stores throughout the country; Gantrez® V, a new and improved hair spray polymer, which provides faster drying times, improves curl retention, and reduces tackiness in hair spray formulations; ISP's new EPA-approved Agrimer™ product for use in pesticides to provide greater adhesion to foliage; and new innovative applications for ISP's PVP polymers for such diverse uses as providing sharper definition in the manufacturing of high definition television tubes and as a coating used in the manufacture of ultrafiltration membranes in connection with separation processes in the biotechnology field.

Growth of ISP's International Business

ISP's international sales have grown over the past eight years at an average annual rate of 20 percent, having increased from 26 percent of the Company's total sales in 1983 to almost 50 percent this past year. While ISP's European sales have been principally responsible for the growth of the Company's international business over this period of time, we believe that the Company's business in the Asia-Pacific region, Eastern Europe, and Latin America will begin to play an increasingly important role in ISP's continued growth. By way of example, ISP's operating income in the Asia-Pacific region grew at an average annual rate of 34 percent over the past five years and continued to grow at double digit rates this past year despite slowing economies in that area of the world.

To further the expansion of ISP's international business, the Company has opened over the past several years new offices in a substantial number of countries offering ISP attractive opportunities to participate in the continued development of Eastern Europe, Latin America, and, most significantly, the Asia-Pacific region of the world. Moreover, ISP's international business has developed to the extent that, in order to sustain and further its growth, we will be constructing additional manufacturing capacity in both Europe and the Far East. To this end, we expect to announce a decision with regard to the location of a new European manufacturing facility in 1992, while plans for a Far East facility should be concluded the following year.

ISP's Niche Acquisition Program

The current private sale market for specialty chemicals businesses, where acquisition prices today are substantially below levels which prevailed in the last half of the 1980s, offer, and will likely continue to do so for the next several years, unusually attractive opportunities for ISP. And while we have no intention whatsoever of making ISP into an acquisition vehicle, we do believe that there is an appropriate place in the Company's overall growth strategy for a limited, strategic acquisition program so long as it is consistent with ISP's credit quality objective, which is to continue to improve the Company's financial profile.

ISP's acquisition strategy is focused on niche type acquisitions with particular emphasis on the non-cyclical industries on which we are concentrating—cosmetics and personal care, pharmaceuticals and health-related products, and food and beverages. We expect these acquisitions to be synergistic in that they will either complement existing product lines, further the geographic reach of our businesses, or increase our market shares. Moreover, it is expected that any acquisitions made by ISP will involve businesses with similar characteristics to our own, involving high value-added products, leading market shares, significant barriers to entry, and product lines which not only complement ISP's own but can be expanded by use of the Company's technology, marketing expertise, and worldwide distribution network.

In line with the Company's acquisition strategy, we currently have several small acquisitions under serious consideration and should be in a position to announce one or more transactions as the year progresses.

Other Developments

ISP's Environmental Services business continues to pursue regulatory approvals to permit the installation and operation of a hazardous waste disposal facility at the site of its former Linden, New Jersey, manufacturing plant. Administrative hearings on the Company's application were concluded in early February, and a decision from the New Jersey Hazardous Waste Facilities Siting Commission is expected some time in the second quarter. We believe that the hearings went well and are cautiously optimistic as to the eventual outcome.

Prospects for 1992

While 1991 was a year in which ISP registered respectable year-to-year increases in both operating profits and earnings, the Company's second-half performance was nevertheless below expectations, with lower sales of ISP products to industrial end-use customers offsetting continued growth in sales of higher value-added specialty products to the cosmetics and personal care, pharmaceutical, and food and beverage industries. And although this same trend will continue to influence the Company's first quarter operating performance, we are beginning to see signs which auger well for improvement over the balance of the year.

The performance of our business as the year progresses should be favorably influenced by, among other things, continued new product development, which should enable ISP to gain greater market penetration, particularly in the cosmetics and personal care industries; improving demand from the industrial sector where the Company's business has been adversely affected over the last year as a result of less than robust economic conditions; and continued growth of the Company's Asia-Pacific business.

While it is not our practice to issue earnings projections, I can assure you that management is committed to achieving substantial year-to-year earnings increases and, further, that we expect to meet that challenge in 1992. ISP's earnings performance this year should not only benefit from an improved operating performance, as described above, but will be positively influenced as well by substantially lower interest expense, resulting from both reduced levels of debt versus year ago levels and lower interest rates as a result of favorable credit market conditions.

ACKNOWLEDGMENTS

ISP's record of accomplishment over the past year was attributable to the exemplary efforts of so many members of the ISP community, and I am delighted to take public cognizance of their many contributions to the success of our common endeavor. Accordingly, we express appreciation to ISP's Board of Directors for its steadfast support and counsel, our customers whose business and long-standing loyalty we constantly strive to reciprocate in our dedication to providing products of the highest quality at the most competitive prices, and my fellow ISP employees who continue to manifest abilities, efforts, and a degree of intensity far beyond the ordinary in carrying out ISP's policies in the pursuit of our common objectives.

Deserving of particular mention in this message is Heinn F. (Tom) Tomfohrde, III, ISP's former President and Chief Operating Officer, who left the Company last year after almost five years of dedicated service. During Tom's tenure, he helped guide ISP's business to an extraordinarily impressive performance, and we are grateful for his inestimable contribution to our Company.

It has always been my view that one of the most telling signs of the health, vigor, and vitality of a business enterprise is not only the quality and enthusiasm of its existing employees but the degree to which it is able to recruit outstanding executives to the Corporation from the outside. And so I am particularly pleased that Tom Bohrer has joined ISP as President, Chief Operating Officer, and a member of the Company's Board of Directors. Tom is an outstanding executive, whom we have known and done business with for a number of years in his capacity as President of Hoechst-Celanese's Engineering Plastics business, and I am delighted that these pages afford me the opportunity to welcome him to our Company.

On a final note, it is worthy of mention that we have recently awarded stock options to not only the Company's managerial employees but all other salaried and certain hourly employees as well. While these awards represent less than one percent of ISP's outstanding shares and therefore involve minimal dilution, they enabled almost two-thirds of our entire employee population to become ISP shareholders. This is of course over and above the ownership interest in ISP held by members of management through their holdings in GAF Corporation. The degree of employee participation in the ownership of our Company is highly unusual, if not unique, in corporate experience, and we believe that it contributes in no small measure to the creation at ISP of a corporate ethic in which employees treat the Corporation's money as if it were their own—as, in fact, it is!

We look forward in 1992 to a year of continued accomplishment.

Sincerely,

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

March 9, 1992

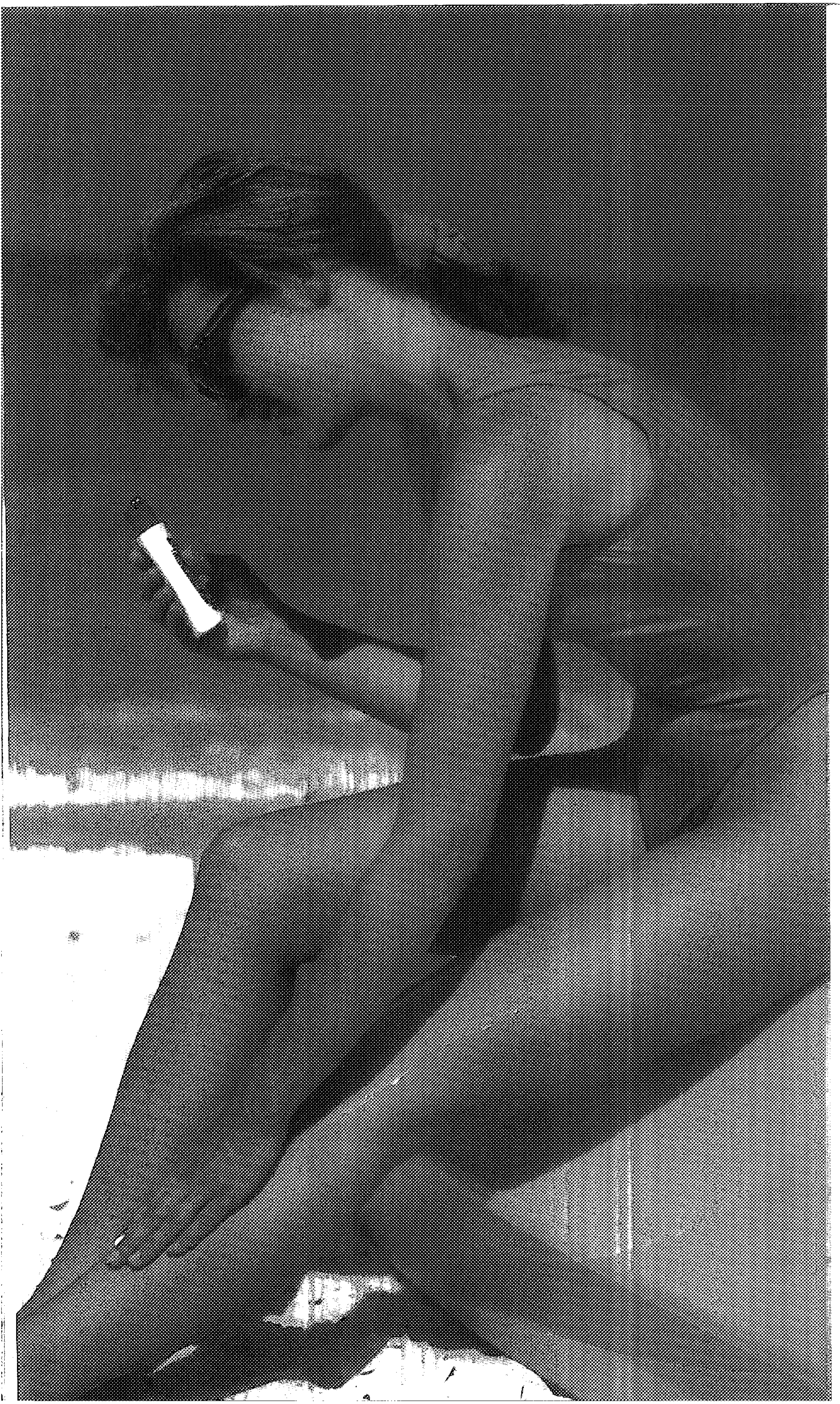
Introducing ISP

Our name, International Specialty Products, describes who we are, a broad-based international Company that produces over 200 proprietary chemical additives and enhancers, each developed to increase the performance of thousands of different branded consumer, industrial, and agricultural end products. We supply ingredients that improve the performance of our customers' products, often giving them the unique characteristics that differentiate them from competitors' products. Because we identify with our customers, meeting their needs and those of their customers influences nearly every phase of the Company's operations, from research and development to sales and marketing.

In this section of the Annual Report, we will highlight our 1991 accomplishments, concentrating on our Specialty Derivative Chemicals and Mineral Products businesses. We will describe how we differ from other specialty chemical companies, illustrate the way we do research, review some of our new products and applications, and show the directions we're heading in a global marketplace.

Although our trademarks are not household names, our products are used in the processing of, or are listed as ingredients on, the labels of thousands of consumer products. Their benefits are noteworthy. Plasdone® polymers help improve the shelf-life of blood supplies; ShipShape® resin cleaner is used in the fiberglass boat industry as an alternative to volatile and flammable acetone cleaners; Polyclar® stabilizes and clarifies wine, beer, and other beverages; Gantrez® polymers help dentures adhere longer, stronger, and faster; and Agrimer™ polymers permit pesticides to adhere more readily to plants. These products, and hundreds more like them, make up the extremely broad geographic, customer, market application, and product base of our specialty derivative chemicals business.

While ISP's specialty derivatives represent only a small part of the cost of the ultimate product, they provide our



Success in today's personal care market depends on the manufacturer's ability to introduce products with unique characteristics. Gantrez® enhances the performance of the active ingredient in tartar control toothpaste, Advantage V facilitates the reduction of volatile organic compounds in hairsprays, and Stabileze® 06 thickens shampoos and hair conditioners.

customers' products with decided competitive advantages. In short, more than 6,000 customers worldwide benefit from ISP's versatility in adapting specialty derivatives for their specific applications.

To achieve our goal of thoroughly understanding the needs of our customers and knowing how their products are used in the marketplace, we use many specialized techniques. We have, for example, a fully-equipped beauty salon to test new products in simulated customer formulations. We use focus groups to test products with professional hairdressers and beauticians. We conduct consumer product research to guide the direction of research and development, as well as brainstorming sessions to generate ideas that we present to our customers. And we initiate joint development partnerships with customers to meet mutual objectives. Because of our track record of innovation and quick response, customers turn to us first for solutions to their new product needs.

ISP's Market Driven Strategy

"During the last several years, we have in our marketing strategy increasingly focused on our customers and their customers, thereby enhancing our role in fulfilling a wide range of individual consumer and societal needs," says James Potter, Vice President, Sales and Marketing.

The results of this evolution are a series of significant 1991 accomplishments:

- Specialty derivatives continued its decade of year-to-year worldwide sales growth.
- Our sales and marketing force grew geographically and was enriched by recruiting more personnel with expertise in our target product markets.
- We continued to get closer to customers by emphasizing the advantages of dedicated marketing groups that concentrate in major product application areas. Working with customers, we formed marketing teams which operate

ISP's growing line of specialty derivatives provides cosmetics worldwide their key performance characteristics. Our Germall® and Suttocide® preservatives protect cosmetics and skin care products from microbial contamination. Ganex® is the waterproofing agent used in the preparation of lipsticks and mascara.

pro-actively with them on new product development and the introduction of end products.

- We formed even broader strategic alliances with a nucleus of select customers to work jointly on the development of new products. These alliances include U.S. and overseas research and development groups from both companies.
- We accelerated an already ambitious new product timetable established years ago by bringing to market 21 new specialty derivative chemical products and over 100 new applications.

SPOTLIGHTING ISP'S PRODUCTS

Our product strategy is to achieve leadership in multiple end user, niche markets. ISP products provide the distinctive characteristics that differentiate our customers' brands from others even though the ISP ingredients contribute only a small portion to the cost of end-products such as a six-pack of beer, can of hairspray, bottle of vitamins, or container of pesticide.

David Barton, Senior Vice President and General Manager, Specialty Derivative Chemicals, points out that "we aim to provide products which provide customers a competitive sales edge. When they have that advantage, our customers gain greater market share, and their success means our success."

Liquidone K-29/32, a polymer just introduced for pharmaceutical applications, is a good example of our niche marketing strategy. With Liquidone, cough syrups, chewable tablets, and lozenges have the same viscosity and "mouthfeel" as traditional syrup solutions, yet are non-caloric and alcohol and sodium-free.

To broaden our line of personal care specialty derivatives, we commercialized a polymer under the trademark of Stabileze® which prevents creams and lotions from separating or settling. Suttocide® A, a newly-introduced preservative, can be combined with Stabileze to produce a

ISP's Plasdone® polymers are used in a broad variety of health care applications. Plasdone is a binder and disintegrant in tablets, controlling the release into the body of the active ingredients in prescription and over-the-counter drugs and vitamins. It also prevents crystallization in cough syrups and other liquid medicines.

crystal-clear gel which gives a smooth feel on the skin and protects the product against spoilage.

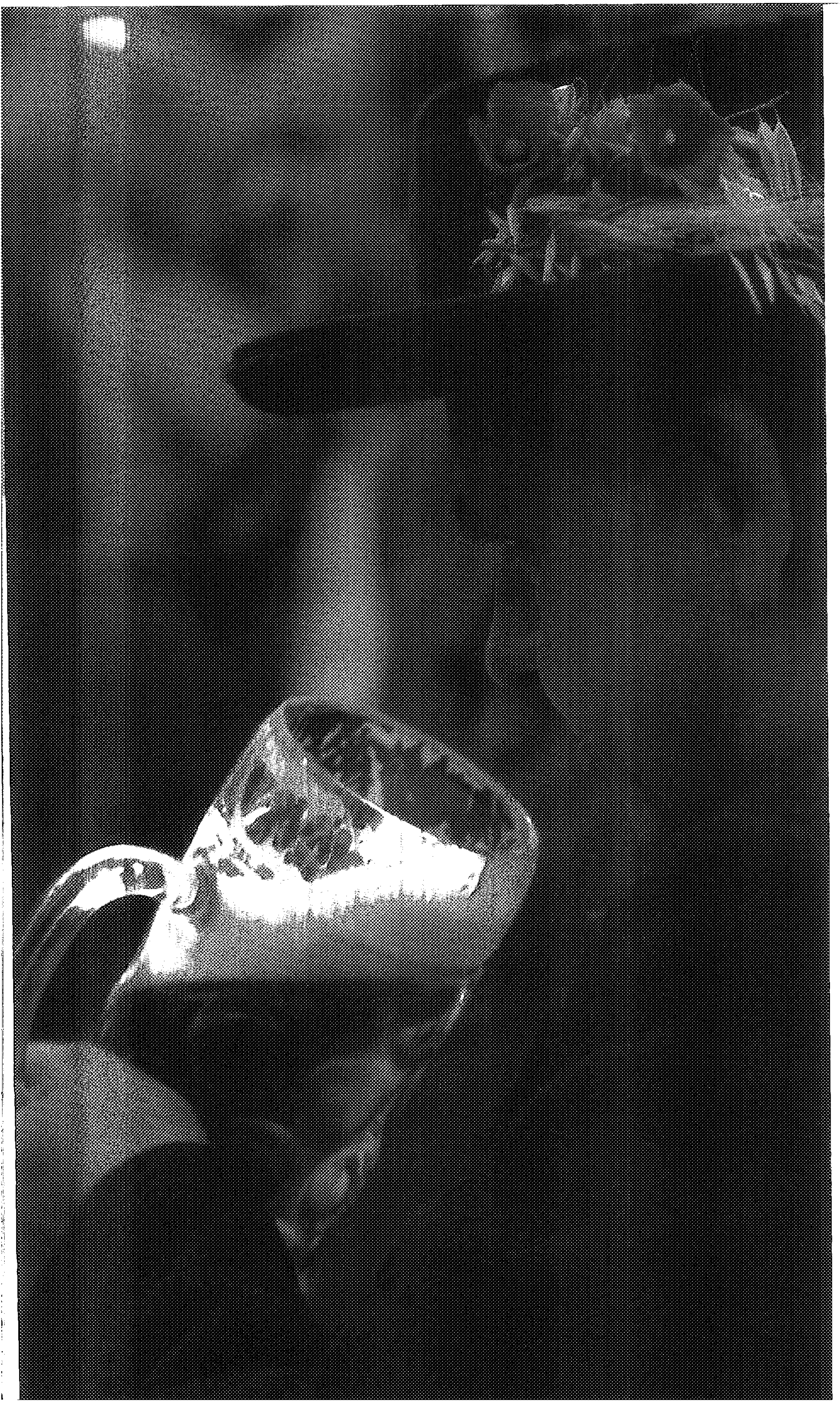
Our family of PVP polymers and copolymers, marketed under such trademarks as Plasdone, Polyclar, Ganex, Gafquat, and Agrimer, is used in a broad range of applications, from pharmaceuticals to agricultural products to hair care products to coatings, beverages and detergent formulations. Two innovative applications for ISP's PVP polymers, developed last year, were for sharper imaging in the manufacture of high definition television tubes, and as an ultrafiltration membrane coating in biotechnology separation processes. The Gantrez line of copolymers is used extensively in applications from hairspray resins to denture adhesives and toothpaste.

Our pyrrolidone-based solvents are sold under such trademarks as M-Pyrol, ShipShape, PrintSolve, PrepRite, PartsPrep, FoamFlush, and MicroPure. These high performance engineered solvents are used in a broad range of applications from reaction solvents in manufacturing pharmaceuticals to industrial cleaning, stripping, and degreasing. The formulated solvents are tailored to specific end uses and are replacing many chlorinated solvents that have become environmentally unacceptable.

Butanediol is a raw material used in the production of ISP solvents and polymers. This material is also sold to customers as an intermediate in the manufacture of plastic resins used in the automotive, electronics, and appliance industries.

The Role of Research and Development

"ISP's versatile chemistry provides us with the ability to create new molecules tailored to meet specific application requirements," notes John Tancredi, Vice President, Research and Development. "The key is to capture the right idea and take it to the market as promptly as possible. In this respect, ISP has no peers. While other companies have to



ISP's Polyclar® is used in the processing of leading beers and wines throughout the world to ensure that they will remain crystal-clear. It is also being promoted for the same purpose in fruit juices and other clear beverages.

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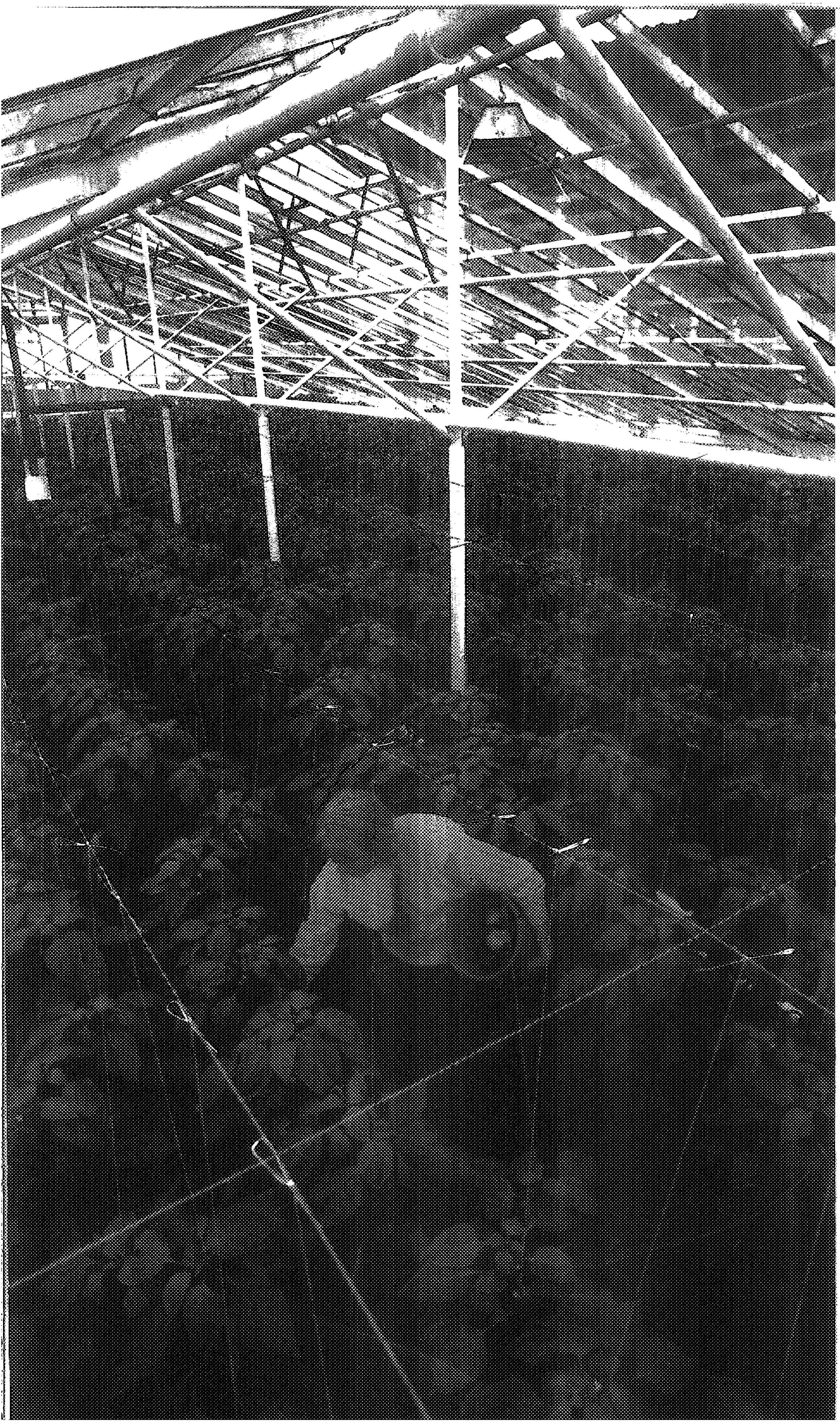
struggle to come up with new ideas, the flexibility of our base of specialty derivatives and the expertise of our scientists interact to create products that customers want. In hairsprays alone, ISP has 20 different resins. They can be fine-tuned for nearly every use. ISP excels in creating products and getting them to customers fast."

Acetylene, a highly reactive and flexible raw material, gives ISP, one of the few companies that has mastered this technology, the unique ability to create families of acetylene based products. Our research and development and manufacturing expertise supports our business objective of increasing the portion of revenues from new products. Our ultimate goal is to have 25 percent of our sales from products developed over the previous five years.

We applied during 1991 more demanding time reduction methods to our product development scheduling. While several years ago a new product might have taken five years from conception to delivery of production quantities, we have slashed this period to less than two years. A shorter development cycle permits ISP to deliver up to 100-pound samples to customers at a much earlier stage, an important factor when pharmaceutical and agricultural end products require governmental approval.

The product development cycle is often reduced even further. It took less than 18 months from the formulation of Stabileze to shipment of one-ton quantities to customers for test marketing in September 1991. And last year when even stricter volatile organic compound standards affecting all hairsprays became effective in California, we responded in less than six months with a new line of Gantrez V products, which not only allowed customers to meet these standards quickly, but provided faster drying times and improved curl retention.



The challenge in agricultural chemicals is to develop herbicides and pesticides which protect crops, yet are safe for humans and the environment. The superior adhesive qualities of ISP's just released family of 14 different EPA-approved Agrimer™ polymers allow farmers to reduce the required amount of pesticide while increasing its effectiveness.

Operating in a Global Marketplace

ISP is a global Company. Almost 60 percent of the sales of its specialty derivative chemicals are made in 72 countries outside the United States. We support our worldwide sales with an international distribution network that responds rapidly to customers' needs.

A key to success is to think and act globally. In this regard, ISP is structured to meet the marketing challenges of the 1990s. Over the past eight years, we have achieved an average annual growth rate of 20 percent in international sales. That momentum is due in part to the opening of sales and technical service offices in Hong Kong, Hungary, Ireland, Korea, the People's Republic of China, Portugal, Taiwan, and Thailand.

Our office in the People's Republic of China conducted in 1991 a series of seminars on the application of ISP resins in cosmetics, pharmaceuticals, beer, and agricultural chemicals. Three hundred Chinese scientists attended seminars on how to use ISP specialty derivative chemicals in pharmaceutical products.

We increased butanediol production in 1991 by 10,000 metric tons at GAF-Hüls Chemie GmbH, our German joint venture which we manage together with Hüls AG. We anticipate announcing plans in 1992 to construct a production facility to make specialty derivatives in Europe. We expect a similar announcement in 1993 for a plant in the Far East.

Consistent with our goal to attain larger overseas sales penetration, we expanded the size of our research facilities and staffing in Singapore and Guildford, England. Global marketing concepts have influenced other aspects of ISP's operations—the designation of marketing managers with worldwide product responsibility, strategic alliances with international consumer product companies, and even an automated voice mail system that operates 24 hours a day,

ISP's 2,000 employees in the U.S. and overseas represent a diverse mix of professional and business skills. Shown here are (from left to right, top to bottom):

ART JAMES
Chemical Operator
Chatham, New Jersey

JACKIE SOLOMON
Laboratory Manager
Chatham, New Jersey

ROGER KIBLER
Senior Laboratory Technician
Hagerstown, Maryland

MATT MACKEY
Laboratory Assistant
Chatham, New Jersey

MARGIE MORGAN
Senior Buyer/Expeditor
Wayne, New Jersey

SUSAN TSENG
Senior Research Chemist
Wayne, New Jersey

ELEANOR CARLSON
Shareholder Relations Manager
Wayne, New Jersey

JAYANTI PATEL
Staff Chemist
Wayne, New Jersey

OLIVER HOLMES
Mill Operator
Charmian, Pennsylvania

WANDA KNABLE
Purchasing Clerk
Charmian, Pennsylvania

YUNG HUA CHEN
Senior Staff Engineer
Wayne, New Jersey

PAT CASEY
Order Supervisor/Customer Service Representative
Chatham, New Jersey

seven days a week on a worldwide basis to speed and enhance communications.

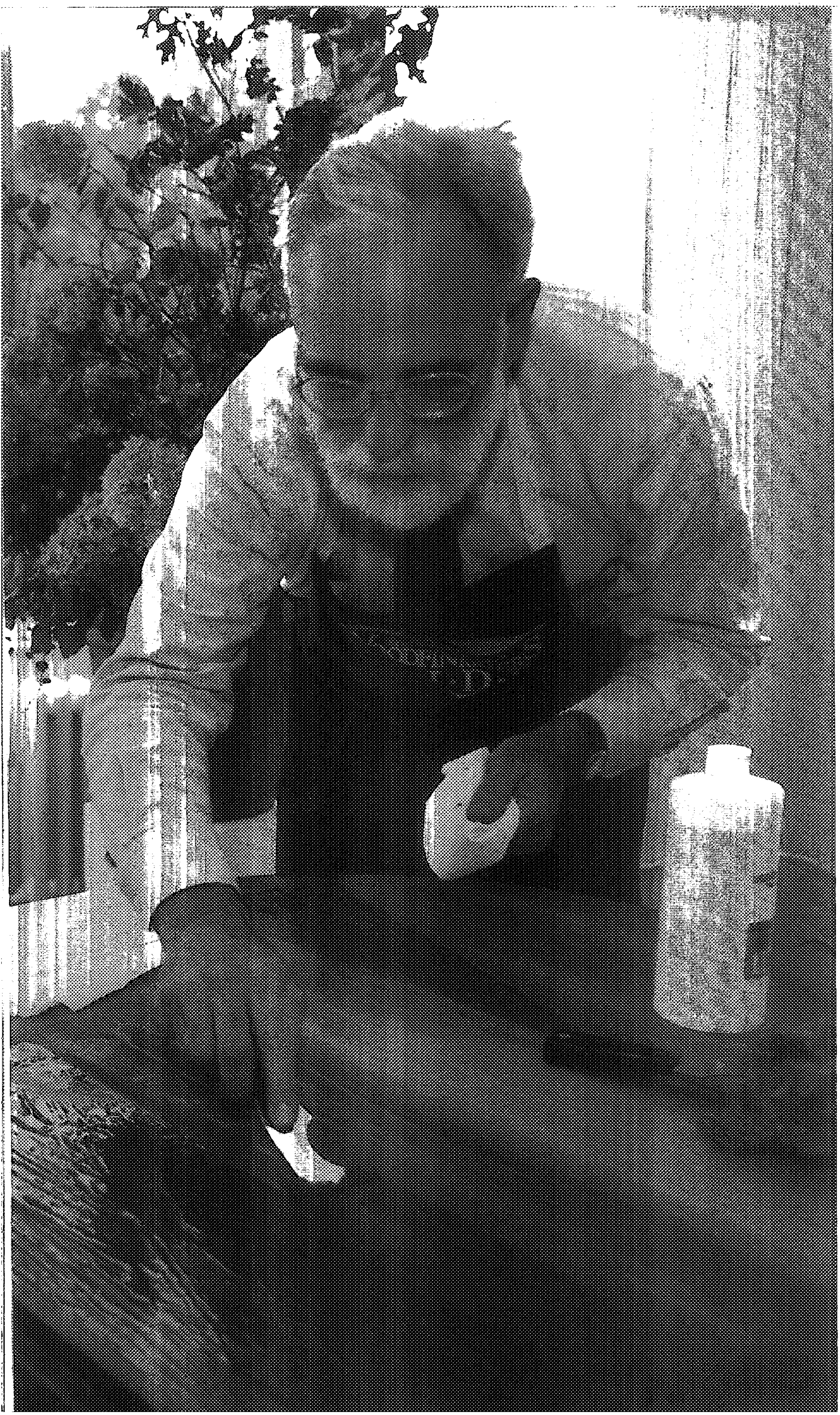
"Our worldwide organization is designed to fulfill the needs and objectives of many of our customers," says Ray Smith, Vice President, International. "They think globally. They develop consumer, industrial, and agricultural products for a worldwide market, and they expect ISP to support these global objectives as well."

ISP AND THE ENVIRONMENT

ISP develops products that must meet stringent environmental requirements, including the high standards set by California and regional, national, and international regulators. Health and safety is given a priority at ISP with toxicologists participating in all new product development teams. With growing frequency, ISP benefits from new environmental rulings that restrict or ban the use of other chemicals, particularly chlorinated solvents such as methylene chloride, an acknowledged animal carcinogen, the use of which in a number of applications has already been severely restricted, and which is currently being studied by the United States Consumer Product Safety Commission for a ban in consumer products.

Our basic chemistry results in products that are less volatile, less corrosive, and safer than many others being used. In order to satisfy changing governmental requirements, our customers must improve the safety of their end products, and in many instances ISP specialty derivatives have already been incorporated in newly formulated replacement products.

These growing environmental concerns led to the establishment of a focused marketing group called Engineered Products to concentrate on the formulation and development of safer solvents, designed for specific industrial stripping and cleaning applications, and for use in agricultural products.



ISP's basic chemistry produces environmentally safer solvents, which are used in a broad range of household and industrial cleaners to replace chlorinated and other solvents, the use of which is becoming increasingly restricted. Stripping and cleaning woodwork is made easier and safer with Woodfinisher's Pride.

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To complete the life cycle of these solvents, ISP provides its customers with an analytical service to characterize the waste stream prior to recycling. We make available a pick-up service to remove the used solvents to an off-site recycling center, or provide technical service assistance for on-site solvent recovery.

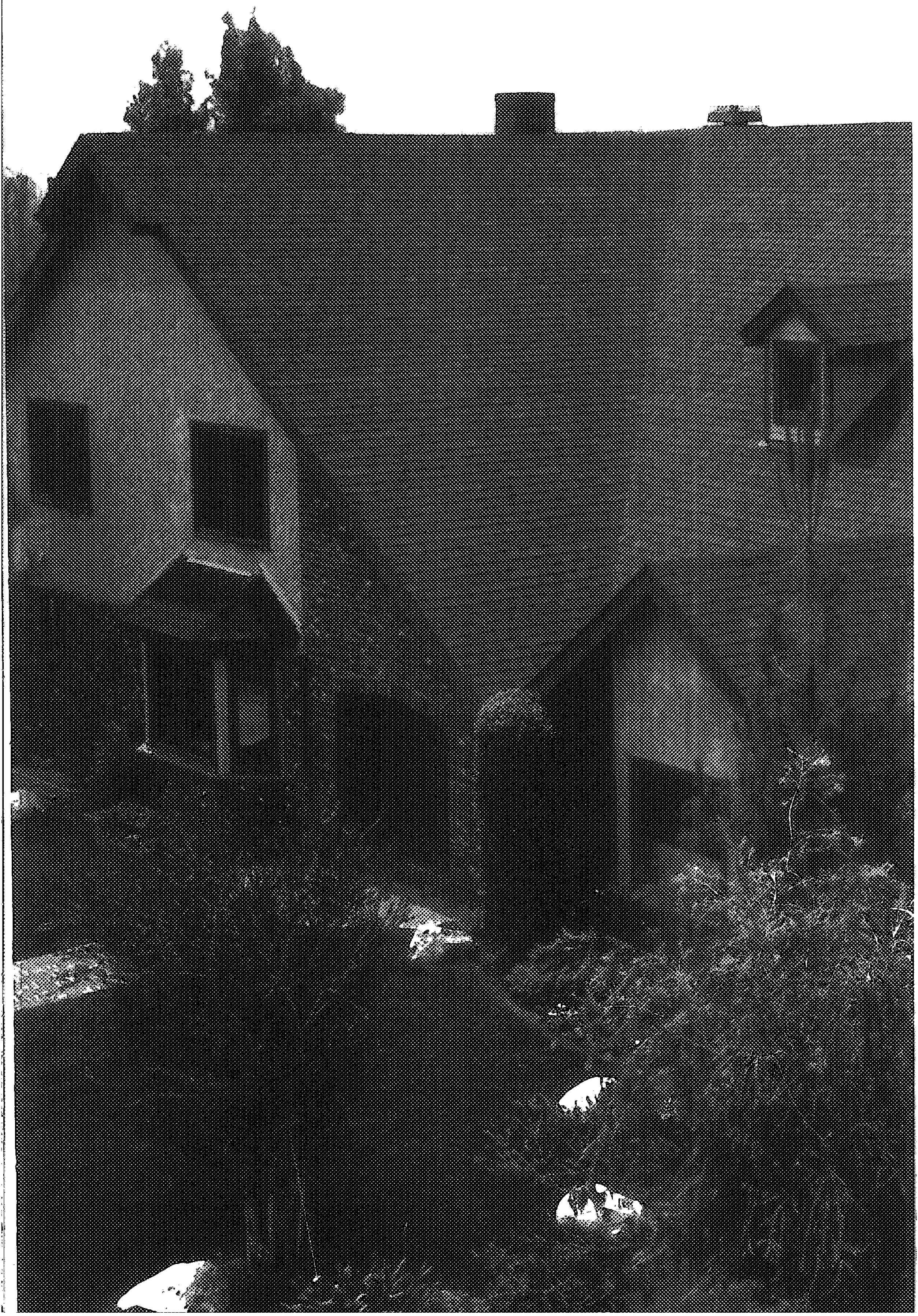
We expanded our sale of environmentally sound solvents in 1991 to include the principal ingredients in a new paint and varnish stripper, Woodfinisher's Pride, which because of its improved performance and safety, is in demand by do-it-yourselfers and professionals to replace harsher off-the-shelf consumer paint and varnish strippers, most of which contain methylene chloride. Only one year after market introduction, Woodfinisher's Pride has met with such enthusiastic consumer response that it is now being sold in more than 6,000 retail stores throughout the country.

Quality Standards at ISP Manufacturing Facilities

When ISP's Texas City plant received ISO 9002 certification in 1991 from the International Standards Organization, the facility became one of approximately 100 American plants to achieve this standard of excellence and only the 20th in the entire chemical industry. The ISO recognition is an accepted international measurement of quality that was established by the Geneva-based International Standards Organization. With this certification, customers know that quality products will be delivered every time, thereby increasing their confidence in the supplier. And in keeping with ISP's global marketing thrust, ISO certification represents a highly regarded standard by which European Economic Community companies can measure a plant's production standards.

Mineral Products

ISP's Mineral Products business supplies colored granules to virtually every manufacturer of asphalt roofing shingles in the United States. Since more than 80 percent of roofing



ISP's colored, ceramic coated granules are critical components in the production of durable and decorative roofing shingles. Our granules improve the aesthetic properties of roofing products and make them more weather resistant and longer lasting. Since reroofing accounts for more than 80 percent of the demand for granules, ISP's Mineral Products business experienced continued sales growth in 1991 despite a low level of new housing starts.

shingles are sold for the replacement market, the Mineral Products business attained significant gains in 1991 despite a weak new home construction market.

ISP's Mineral Products business continues to benefit from two important roofing trends. First, roofing manufacturers are continuing to convert their shingle production from organic to glass fiber substrate, a product that requires 17 percent more granules. Second, substantially increased industry wide production of laminated shingles has accelerated the demand for granules. Compared with lower cost commodity roofing products, laminated shingles use 40 percent more granules. ISP Mineral Products is also the exclusive supplier of the product used in the construction of Har-Tru® all-weather tennis courts.

Filter Products

ISP's Filter Products business expanded its product line of pressure filter vessels, filter bags and filter systems, to include a new line of cartridges and cartridge housings to process liquids in the biotechnology, cosmetic, and electronics industries. We also expanded geographically by entering the United States market with a dedicated sales force and a newly appointed distributor network. ISP filter products are used primarily to treat process liquids in the paint, automotive, chemical, and food and beverage fields.

Advanced Materials

Advanced Materials produces approximately 50 different grades of Micropowder™ iron used primarily in the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. Much of the focus of Advanced Materials has been the defense industry where carbonyl iron powders in coatings give "stealth" characteristics to aircraft and naval ships. We also market Ferronyl® brand iron powder, which is used as an iron supplement in vitamins. The FDA-approved product is regarded by medical experts as safer than iron salts for use in vitamins.

FINANCIAL REVIEW

ISP

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

In July 1991, International Specialty Products Inc. (the "Company"), a newly formed indirect subsidiary of GAF Corporation ("GAF"), completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock, at an initial public offering price of $15.50. The Company, through its subsidiaries, operates the businesses and owns substantially all of the operating assets formerly operated and owned by GAF Chemicals Corporation ("GCC"), its direct parent.

The Company was formed in 1991 to acquire, through a stock acquisition, substantially all of the operating businesses then conducted by GCC. GCC transferred (i) to newly formed subsidiaries, its assets and liabilities (other than those relating to certain investments and the capital stock of its existing subsidiaries), and (ii) to the Company, the capital stock of such newly formed subsidiaries, together with the capital stock of its existing operating subsidiaries.

GAF was acquired on March 29, 1989 in a management-led buyout (the "Acquisition") for a total price of $1.4 billion. The capital structure and accounting bases of the assets and liabilities of the Company subsequent to and as a result of the Acquisition differ from those of the Company's business for periods prior to the Acquisition (the "Predecessor Company"). Consequently, in addition to interest expense incurred on Acquisition borrowings, the Company's results of operations subsequent to the Acquisition reflect non-cash charges that are not applicable to the Predecessor Company, consisting of goodwill amortization and depreciation of increased asset values resulting from the Acquisition. Such non-cash charges amounted to $19.1 million, $19 million and $14 million for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively.

Results of Operations

The following table sets forth certain pro forma operating data for the year 1989, and historical data for the years 1990 and 1991. To facilitate the comparison of results for the three years, data for the year 1989 has been adjusted on a pro forma basis to reflect the Acquisition as if it had been completed on January 1, 1989. Accordingly, goodwill amortization, depreciation of increased asset values and interest expense related to debt incurred in the Acquisition have been reflected for the year 1989. The Company's investment in GAF-Hüls is reflected in the Company's financial statements using the equity method of accounting and the Company's share of the joint venture's earnings is reflected in operating income. See Note 12 of Notes to Consolidated Financial Statements.

(Dollars in Millions)	Historical: Year Ended December 31, 1991	Historical: Year Ended December 31, 1990	Pro Forma Year Ended December 31, 1989 (Unaudited)
Net sales	$525.8	$511.7	$469.6
Operating income	$140.5	$133.1	$115.9
Interest expense	(52.7)	(85.2)	(93.6)
Other income (expense), net	(8.8)	(2.6)	0.6
Income before income taxes	79.0	45.3	22.9
Income taxes	(28.1)	(14.5)	(13.3)
Net income	$ 50.9	$ 30.8	$ 9.6
Operating margin	26.7%	26.0%	24.7%

1991 Compared With 1990

In 1991, the Company recorded its ninth consecutive year of increased operating income. Net sales increased by $14.1 million (3%) to $525.8 million in 1991 from $511.7 million in 1990. Operating income was $140.5 million in 1991, an increase of $7.4 million (6%) over 1990. Net income increased by $20.1 million (65%) to $50.9 million in 1991 from $30.8 million in 1990.

Specialty derivative chemicals and mineral products contributed to the increase in net sales. Net sales of specialty derivative chemicals increased by $14.6 million (4%) as a result of higher volumes, an improved product mix, and higher pricing, partially offset by the unfavorable impact of foreign exchange rates. Net sales of mineral products increased by $2.8 million (3%), due to higher selling prices.

The growth in the Company's operating income resulted primarily from a $7.4 million (7%) increase in operating income of specialty derivative chemicals, due to the improvement in product mix and higher pricing described above. These gains were partially offset by additional selling, general and administrative expenses and increased new product costs and an unfavorable foreign exchange impact. The operating income of mineral products increased by $2.2 million (11%).

Interest expense in 1991 was $52.7 million, a decrease of $32.5 million from 1990. The decrease was attributable to the repayment of $299 million of bank debt in 1991, mainly from the proceeds of the initial public offering, and also to a general decline in prevailing interest rates and a reduction in the interest rate pricing provisions applicable to the Company's bank borrowings.

Other income (expense) is comprised of net investment income and other nonoperating and nonrecurring items of income and expense. For the year 1991, the Company had net other expense of $8.8 million, compared with net other expense of $2.6 million in 1990. The increased net expense in 1991 was due primarily to a one-time charge of $3.8 million, representing the Company's portion of the costs in connection with the termination of the GAF Equity Appreciation Plan upon completion of the initial public offering, and also to lower net investment income in 1991.

1990 Compared With Pro Forma 1989

In 1990, the Company recorded its eighth consecutive year of increased operating income. Net sales increased by $42.1 million (9%) to $511.7 million in 1990 from $469.6 million in 1989. Operating income was $133.1 million in 1990, representing an increase of $17.2 million (14.8%) over 1989. Net income increased by $21.2 million to $30.8 million in 1990 from $9.6 million in 1989.

Specialty derivative chemicals, mineral products, filter products and advanced materials all contributed to the increase in net sales. Specialty derivative chemicals net sales increased $31.9 million (8.7%) as a result of the favorable impact of foreign exchange rates of $20 million; a combination of an improved product mix, new product introductions and higher pricing totaling $7.8 million; and the inclusion of the full-year results of $4.1 million of Sutton Laboratories, Inc. ("Sutton"), which the Company acquired in April 1989. Net sales of mineral products increased by $6 million (7.8%), due to higher unit volumes.

The growth in the Company's operating income resulted primarily from a $19 million (21.3%) increase in operating income of specialty derivative chemicals, due to the favorable net impact of foreign exchange rates of $14.1 million, an improvement in margins totaling $8.3 million attributable to product mix and new product introductions, and the full-year results of Sutton of $2.4 million. These gains were partially offset by additional selling, general and administrative expenses and increased new product and applicable costs totaling $5.8 million. The operating income of mineral products was unchanged as gains from higher sales volumes were offset by higher manufacturing costs.

Interest expense in 1990 was $85.2 million, a decrease of $8.4 million from the 1989 level. The decrease was attributable to a general decline in prevailing interest rates and a reduction in the interest rate pricing provisions applicable to the Company's bank borrowings.

Other income (expense) is comprised of net investment income and other nonoperating and nonrecurring items of income and expense. For the year 1990, the Company had net other expense of $2.6 million, compared with net other income of $.6 million in 1989. The increased net expense in 1990 was due primarily to lower net investment income in 1990.

Income Taxes

The tax provision reflected in 1989 on a pro forma basis consists of foreign income taxes only. The effective tax rate, which is a function of the amount of income taxes paid in relation to income before income taxes, decreased from 1989 to 1990 because of a decrease in domestic losses from operations (for which no pro forma taxes are required) and a reduction in the effective tax rate on foreign operations due to foreign tax rate reductions.

The increase in the effective income tax rate from 32.1% for the year 1990 to 35.6% for the year 1991 was attributable to profitable domestic and foreign operations for which domestic and foreign income taxes were provided for 1991.

Liquidity and Financial Condition

The net proceeds of $281.3 million from the initial public offering were paid by the Company to G Industries Corp. ("G Industries"), the parent company of GCC, to reduce the Company's intercompany note (the "Intercompany Term Note"). G Industries then used such funds to reduce its $600 million bank term loan. The remaining term loan amortization payments (and thus the remaining Intercompany Term Note amortization payments) were reduced on a pro rata basis.

In March 1992, two domestic subsidiaries of the Company (the "Issuers") issued $200 million of 9% Senior Notes (the "Notes") due 1999. The net proceeds from the issuance of the Notes were used by the Company to repay a portion of the Intercompany Term Note to G Industries, and by G Industries to repay a portion of the term loan under the Credit Agreement.

The Notes are general unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the term loan and the combined revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of GAF Building Materials Corporation, which are limited to $40 million). In addition, all liens on assets of the Company securing the Bank indebtedness were released, with the result that the remaining Bank indebtedness and the Notes rank pari passu.

As a result of the foregoing, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to $25.7 million.

During the year 1991, the Company generated cash flow from operations of $47.3 million, which was $3.6 million lower than net income, as $39.3 million of depreciation, goodwill amortization and deferred taxes were more than offset by an increase in working capital of $21 million, an increase in other assets of $12 million mainly resulting from undistributed equity in income from the GAF-Hüls joint venture, and a decrease in other liabilities of $6.5 million resulting primarily from expenditures against plant shutdown reserves.

In 1991, the Company invested $34.4 million in plant and equipment and approximately $17.8 million in research and development, compared with $35.6 million and $16.3 million, respectively, in 1990. Such investments were funded principally by internally generated cash flow. Net cash used for financing activities in 1991 was $22.1 million, including repayments of long-term and short-term debt totaling $300.9 million, and dividends and distributions to GCC of $27.7 million, mostly offset by proceeds of $281.3 million from the initial public offering and by a capital contribution from GCC of $25.3 million.

Fluctuations in the value of foreign currencies cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot quantify in any meaningful way the effect of such fluctuations upon future income. This is due to the large number of currencies involved, the constantly changing exposure in these currencies, the fact that all foreign currencies do not react in the same manner against the U.S. dollar, and the complexity of intercompany relationships (including the Company's practice of purchasing Deutsche mark denominated butanediol from GAF-Hüls, which serves to offset in part the adverse effect on net sales and income of a stronger U.S. dollar). The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies. Part of that management includes entering into foreign exchange contracts from time to time in order to hedge a portion of both borrowings denominated in foreign currency and purchase commitments related to the operations of foreign affiliates. Gains and losses on such contracts are deferred and amortization is included in the measurement of the foreign currency transactions hedged. Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts will vary with changes in the market exchange rates. During periods in which the dollar has been strong, the Company has sought to maintain its foreign operating income in dollar terms by offsetting changes in exchange rates with price increases. There can be no assurance that if undertaken in the future, any such efforts will be successful.

The parent corporations of the Company, including GAF, G-I Holdings, G Industries and GCC, are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their obligations. For a description of such obligations see Note 16 of Notes to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, cause the Company to make loans to its parent corporations or cause GCC to sell shares of common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries will have a material adverse effect on the operations, liquidity or capital resources of the Company.

Sales, operating income and identifiable assets by geographic area are set forth in Note 14 of Notes to Consolidated Financial Statements. For information with respect to historical income taxes, see Note 5 of Notes to Consolidated Financial Statements.

In December 1990, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." See Note 9 of Notes to Consolidated Financial Statements for a discussion of the potential impact of this new accounting standard on the Company's financial statements. In February 1992, the FASB issued Statement No. 109, "Accounting for Income Taxes", which established financial accounting and reporting standards for the effects of income taxes. The new standard is effective no later than for the year 1993. The Company does not anticipate that the implementation of these pronouncements will have a material adverse effect on the financial position or net income of the Company.

The Company does not believe that inflation has had a material effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

SELECTED FINANCIAL DATA

Set forth below are selected consolidated financial data of the Company and the Predecessor Company. The capital structure and accounting bases of the assets and liabilities of the Company subsequent to April 2, 1989 differ from those of the Predecessor Company for prior periods as a result of the Acquisition. Financial data of the Predecessor Company are presented on a historical cost basis. Financial data of the Company reflect the Acquisition under the purchase method of accounting. Accordingly, financial data for periods subsequent to the Acquisition are not comparable to data for periods prior thereto, because the periods subsequent to the Acquisition reflect interest expense on Acquisition borrowings as well as non-cash charges that are not applicable to the Predecessor Company, consisting of goodwill amortization and depreciation of increased asset values resulting from the Acquisition. Such non-cash charges amounted to $19.1 million, $19 million and $14 million for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively.

	Company			Predecessor Company			
	Year Ended December 31,		Nine Months Ended December 31,	First Quarter Ended April 2,	Year Ended December 31,		
(Dollars in Thousands)	1991	1990	1989	1989	1988	1987	1986
Operating data:							
Net sales	$ 525,786	$ 511,652	$ 354,677	$114,885	$406,735	$362,075	$310,768
Operating income	140,522	133,056	89,261	30,998	97,869	93,101	76,836
Interest expense	52,693	85,224	66,434	2,032	7,211	6,550	4,947
Income before income taxes	78,968	45,323	23,170	29,244	93,708	91,532	67,891
Net income	50,855	30,768	12,349	18,248	61,204	55,592	42,332
Other data:							
Operating margin	26.7%	26.0%	25.2%	27.0%	24.1%	25.7%	24.7%
Depreciation	$ 19,719	$ 18,780	$ 11,995	$ 2,314	$ 8,689	$ 7,767	$ 9,625
Goodwill amortization	14,067	13,996	10,242	—	—	—	—
Capital expenditures	34,422	35,627	22,909	3,837	40,575	28,889	9,967

	Company			Predecessor Company		
	December 31,			December 31,		
	1991	1990	1989	1988	1987	1986
Balance Sheet data:						
Working capital	$ 89,649	$ 65,658	$ 95,400	$ 46,586	$ 70,442	$ 59,346
Total assets	1,074,724	1,064,496	1,057,794	339,653	328,235	254,955
Long-term debt	413,746	698,044	734,018	71,677	73,761	68,433
Stockholders' equity	484,372	154,987	143,921	122,131	118,231	73,302

Consolidated Statements of Income

(In thousands, except per share amounts)	Company Year Ended December 31, 1991	Company Year Ended December 31, 1990	Company Nine Months Ended December 31, 1989	Predecessor Company First Quarter Ended April 2, 1989
Net sales	$525,786	$511,652	$354,677	$114,885
Costs and expenses:				
Cost of products sold	268,255	269,040	194,012	64,391
Selling, general and administrative	102,942	95,560	61,162	19,496
Goodwill amortization	14,067	13,996	10,242	—
Total costs and expenses	385,264	378,596	265,416	83,887
Operating income	140,522	133,056	89,261	30,998
Interest expense	(52,693)	(85,224)	(66,434)	(2,032)
Provision for termination of Equity Appreciation Plan	(3,843)	—	—	—
Other income (expense), net	(5,018)	(2,509)	343	278
Income before income taxes	78,968	45,323	23,170	29,244
Income taxes	(28,113)	(14,555)	(10,821)	(10,996)
Net income	$ 50,855	$ 30,768	$ 12,349	$ 18,248
Earnings per common share	$ .56	$ .38	$ .15	N/A
Weighted average number of common shares outstanding	90,194	80,500	80,500	N/A

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(Thousands)	December 31, 1991	1990
Assets		
Current Assets:		
Cash and cash equivalents	$ 10,085	$ 19,317
Accounts receivable, less reserve: 1991—$2,221, 1990—$2,433	72,023	80,775
Inventories	93,836	83,716
Other current assets	11,707	9,488
Receivable from related parties	6,587	3,421
Total Current Assets	194,238	196,717
Property, Plant and Equipment, net	338,737	324,037
Excess of cost over net assets of businesses acquired, net of accumulated amortization of $38,305 and $24,238, respectively	488,428	502,445
Other assets	53,321	41,297
Total Assets	$1,074,724	$1,064,496
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt and current maturities of long-term debt	$ 7,069	$ 9,767
Current maturities of Intercompany Term Note	18,694	32,500
Accounts payable	36,507	38,289
Accrued liabilities	36,932	41,570
Income taxes	5,387	8,933
Total Current Liabilities	104,589	131,059
Long-term debt less current maturities	61,445	68,319
Intercompany Term Note	282,301	567,500
Borrowings under Intercompany Revolving Note	70,000	62,225
Deferred income taxes	39,058	33,526
Other liabilities	32,959	46,880
Commitments and contingencies		
Stockholders' Equity:		
Capital stock and additional paid-in capital	506,041	199,433
Excess of purchase price over adjusted historical cost of Predecessor Parent Company shares owned by Predecessor Parent Company stockholders	(63,483)	(63,483)
Retained earnings	23,160	—
Cumulative translation adjustment and other	18,654	19,037
Total Stockholders' Equity	484,372	154,987
Total Liabilities and Stockholders' Equity	$1,074,724	$1,064,496

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	Company Year Ended December 31, 1991	Company Year Ended December 31, 1990	Company Nine Months Ended December 31, 1989	Predecessor Company First Quarter Ended April 2, 1989
Cash and cash equivalents, beginning of period	$ 19,317	$ 18,309	$ —	$ 34,828
Cash Flows from Operating Activities:				
Net income	50,855	30,768	12,349	18,248
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	19,719	18,780	11,995	2,314
Goodwill amortization	14,067	13,996	10,242	—
Deferred income taxes	5,532	5,090	8,083	1,741
(Increase) decrease in working capital	(20,989)	(5,517)	(30,745)	(14,548)
(Increase) decrease in other assets	(12,024)	(658)	(3,443)	(2,194)
Increase (decrease) in other liabilities	(6,485)	(8,717)	22,108	(2)
(Increase) decrease in receivable from related parties	(3,166)	3,509	(7,278)	3,863
Other, net	(189)	2,326	(3,340)	379
Net cash provided by operating activities	47,320	59,577	19,971	9,801
Cash Flows from Investing Activities:				
Capital expenditures	(34,422)	(35,627)	(22,909)	(3,837)
Acquisition of Predecessor Company, net of cash acquired	—	—	(585,323)	—
Acquisition of Sutton Laboratories, net of cash acquired	—	—	(31,975)	—
Net cash used in investing activities	(34,422)	(35,627)	(640,207)	(3,837)
Cash Flows from Financing Activities:				
Proceeds from initial public offering	281,272	—	—	—
Increase (decrease) in short-term debt	(9,212)	1,008	(1,137)	2,285
Proceeds from debt incurred to acquire Predecessor Parent Company	—	—	611,144	—
Proceeds from debt financing	—	653,000	56,978	—
Repayments of long-term debt	(291,680)	(657,966)	(6,140)	—
Change in cumulative translation adjustment	(215)	11,610	7,427	(2,928)
Dividends and distributions to GCC	(27,695)	(31,312)	(30,301)	(18,248)
Capital contribution by GCC	25,336	—	—	4,149
Other, net	64	718	574	(238)
Net cash provided by (used in) financing activities	(22,130)	(22,942)	638,545	(14,980)
Net change in cash and cash equivalents	(9,232)	1,008	18,309	(9,016)
Cash and cash equivalents, end of period	$ 10,085	$ 19,317	$ 18,309	$ 25,812

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	Company			Predecessor Company
(Thousands)	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Supplemental Cash Flow Information:				
(Increase) decrease in working capital items:				
Accounts receivable	$ 8,752	$ (1,228)	$ (416)	$ (17,946)
Inventories	(10,120)	(10,299)	(9,312)	3,368
Other current assets	(2,219)	3,531	(1,921)	(1,630)
Accounts payable	(1,782)	(6,581)	(1,223)	(2,123)
Accrued liabilities	(12,074)	8,044	(10,986)	(711)
Income taxes	(3,546)	1,016	(6,887)	4,494
Net (increase) decrease in working capital items	$(20,989)	$ (5,517)	$ (30,745)	$ (14,548)
Cash paid during the period for:				
Interest	$ 55,577	$ 93,544	$ 61,920	$ 1,807
Income taxes (including taxes paid pursuant to Tax Sharing Agreement)	25,211	8,443	9,625	4,761
Acquisition of Sutton Laboratories, net of cash acquired:				
Fair market value of assets acquired			$ 32,907	
Purchase price of acquisition			(31,975)	
Liabilities assumed			$ 932	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

(Thousands)	Capital Stock and Additional Paid-in Capital	Cumulative Translation Adjustment and Other	Retained Earnings
April 2, 1989	$217,929	$ —	$ —
Net income	—	—	12,349
Translation adjustment	—	7,427	—
Dividends and distributions to GCC	(17,952)	—	(12,349)
December 31, 1989	$199,977	$ 7,427	$ —
Net income	—	—	30,768
Translation adjustment	—	11,610	—
Dividends and distributions to GCC	(544)	—	(30,768)
December 31, 1990	$199,433	$19,037	$ —
Net income	—	—	50,855
Proceeds from initial public offering	281,272	—	—
Translation adjustment	—	(215)	—
Dividends and distributions to GCC	—	—	(27,695)
Capital contribution by GCC	25,336	—	—
Unfunded pension liability	—	(168)	—
December 31, 1991	$506,041	$18,654	$ 23,160

Predecessor Company

January 1, 1989	$110,064	$12,067	$ —
Net income	—	—	18,248
Translation adjustment	—	(2,928)	—
Dividends and distributions to GCC	—	—	(18,248)
Capital contribution by GCC	4,149	—	—
April 2, 1989	$114,213	$ 9,139	$ —

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE 1

FORMATION OF THE COMPANY

International Specialty Products Inc. (the "Company") was formed on April 25, 1991 and is an 80.6% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"). The authorized capital stock of the Company consists of 300,000,000 shares of common stock (par value $.01 per share) and 20,000,000 shares of preferred stock (par value $.01 per share). On April 26, 1991, the Company issued 10 shares of its common stock to GCC in exchange for $10.00. The Company acquired all the shares of the capital stock of the subsidiaries of GCC which own substantially all of GCC's operating assets. The Company and its subsidiaries also assumed GCC's liabilities related to such assets and certain intercompany notes (see Note 8). In connection with these transactions, the Company issued an additional 80,499,990 shares of its common stock to GCC and entered into certain agreements with its affiliates (see Notes 5, 8 and 11).

The accompanying consolidated financial statements have been prepared on a basis which retroactively reflects the formation of the Company, as discussed above, for all periods presented. Stockholders' equity, long-term debt and the related interest expense and income tax effect thereon have been reflected retroactively for each of the periods presented. Excess cash generated prior to July 1, 1991 has been reflected as dividends and/or distributions to GCC for all periods presented. Certain allocations between GCC and the Company have been reflected in the historical financial statements based on methods that management believes to be reasonable (see Note 11).

A predecessor company to GAF Corporation (the "Predecessor Parent Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition"). Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) ("GAF"), together with its wholly owned subsidiary, G-I Holdings, Inc. ("G-I Holdings"), and its wholly owned subsidiary, G Industries, were established to effect the Acquisition. The total Acquisition consideration of $1.423 billion was financed in part by the Predecessor Parent Company's cash on hand and by borrowings from banks and others. The original bank borrowings were replaced by a long-term financing arrangement in September 1990 (see Note 8).

The Acquisition was accounted for under the purchase method of accounting. Accordingly, the historical book values of the assets and liabilities of GCC's predecessor company prior to the Acquisition (the "Predecessor Company") were adjusted to their fair values, as estimated at March 29, 1989. As a result, an excess of cost over net assets of businesses acquired ("goodwill") related to the Company of $498.9 million was recorded. Such amount was based on the excess of the Acquisition consideration allocated to the Company over the estimated fair market value as of March 29, 1989 of the assets and liabilities of the Company.

Since certain members of the management group beneficially owned shares of the Predecessor Parent Company's common stock before the Acquisition and own shares of GAF after the Acquisition, the purchase method of accounting does not apply to their shares of the Predecessor Parent Company. Accordingly, for accounting purposes, stockholders' equity reflects the total shares of the Predecessor Parent Company owned by the management group at their respective adjusted historical costs, reduced by the consideration paid by GAF for the Predecessor Parent Company shares owned by the management group (including payments by the Predecessor Parent Company to cancel outstanding options for stock of the Predecessor Parent Company), resulting in a total reduction in stockholders' equity of $72.6 million, computed as shown below, of which $63.5 million was allocated to the Company based on the ratio of the fair value of the Company's net assets to the total Acquisition consideration.

(Thousands)	
Aggregate actual historical cost (to the management group) of the Predecessor Parent Company shares owned by the management group	$ 23,621
Management group's proportionate share of the Predecessor Parent Company book value	65,727
Adjusted historical cost (to the management group) of the Predecessor Parent Company shares owned by the management group	89,348
Less: consideration paid by GAF to the management group for the Predecessor Parent Company shares owned by the management group	(161,953)
Excess of purchase price paid by GAF to the management group for the Predecessor Parent Company shares over the adjusted historical cost (to the management group) of the Predecessor Parent Company shares owned by the management group	(72,605)
Less: amounts related to other affiliates	9,122
Amount related to the Company	$ (63,483)

NOTE 2

INITIAL PUBLIC OFFERING

In July 1991, the Company completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock, at a price of $15.50 before underwriters' discount. The net proceeds of $281.3 million from the initial public offering were paid by the Company to G Industries to reduce the Company's Intercompany Term Note (see Note 8). G Industries then used such funds to reduce its $600 million bank term loan. The remaining term loan amortization payments (and thus the remaining Intercompany Term Note amortization payments) were reduced on a pro rata basis.

NOTE 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accounts of all of the Company's subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method (see Note 12).

Cash Equivalents

The Company considers highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on average cost.

Depreciation and Capitalized Interest

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment.

Foreign Exchange Contracts

The Company enters into a variety of foreign exchange instruments in order to hedge a portion of both its borrowings denominated in foreign currency and its purchase commitments related to the operations of foreign affiliates. Gains and losses on such instruments are deferred and amortization is included in the measurement of the foreign currency transactions hedged. Forward contract agreements entered into from time to time require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts will vary with changes in the market exchange rates.

Translation of Foreign Currency Amounts

For non-U.S. subsidiaries which operate in a local currency environment, assets and liabilities are translated to U.S. dollars at year-end exchange rates. Translation adjustments are accumulated in a separate component of stockholders' equity, "Cumulative translation adjustment." Income and expense items are translated at average rates of exchange during the year.

For non-U.S. subsidiaries which operate in a highly inflationary environment, inventories, fixed assets and investments are translated at historical rates as of the dates of acquisition, while other assets and liabilities are translated at year-end exchange rates. Inventories charged to cost of sales and depreciation expense are remeasured at historical rates, while all other income and expense items are translated at average rates of exchange during the year. Gains and losses resulting from translation are included in other income (expense), net.

Excess of Cost Over Net Assets of Businesses Acquired

Excess of cost over net assets of businesses acquired is amortized on the straight-line method over a period of approximately 40 years.

Research and Development

Research and development expenses are charged to operations as incurred and amounted to $17.8 million for the year 1991, $16.3 million for the year 1990, $9.5 million for the nine months ended December 31, 1989, and, for the Predecessor Company, $3.6 million for the first quarter ended April 2, 1989.

NOTE 4

PRO FORMA FINANCIAL INFORMATION

Presented below are condensed statements of operations for the years 1991 and 1990 on a historical basis and an unaudited pro forma statement of operations for the year 1989, prepared as if the Acquisition (discussed in Note 1) had occurred on January 1, 1989. The pro forma statement reflects adjustments for expenses attributable to the Acquisition, including interest expense arising from Acquisition debt, goodwill amortization and depreciation related to the writeup of plant and equipment to estimated fair value. The pro forma statement also reflects the elimination of historical Federal and state income taxes.

(Millions)	Historical Year Ended December 31, 1991	1990	Pro Forma Year Ended December 31, 1989
Net sales	$525.8	$511.7	$469.6
Costs and expenses	371.2	364.6	340.3
Goodwill amortization	14.1	14.0	13.4
Operating income	140.5	133.1	115.9
Interest expense	(52.7)	(85.2)	(93.6)
Other income (expense), net	(8.8)	(2.6)	0.6
Income before income taxes	79.0	45.3	22.9
Income taxes	(28.1)	(14.5)	(13.3)
Net income	$ 50.9	$ 30.8	$ 9.6

Pro forma interest expense for the year 1989 was calculated assuming that debt incurred in connection with the Acquisition was outstanding as of January 1, 1989, and that such debt had borne interest at the rates that would have been in effect during 1989. Such debt consisted of a $499 million bank term loan, a revolving credit facility with an average of $90 million outstanding, and $48 million of 16% Senior Increasing Rate Notes. Pro forma interest expense for 1989 does not give retroactive effect to the repayment of term debt with the proceeds of the sale of common stock in July 1991.

Federal and state income taxes were not provided on a pro forma basis in 1989 because the aforementioned interest deduction attributable to the Acquisition debt eliminated the need for a Federal or state tax provision. However, the foreign tax expense for 1989 has remained unchanged from the historical financial statements.

On April 10, 1989, the Company acquired Sutton Laboratories, Inc. ("Sutton") for $32 million. The acquisition was accounted for as a purchase. Accordingly, the results of Sutton have been included from the date of acquisition in both the Consolidated Statement of Income for the nine months ended December 31, 1989 and the pro forma statement of operations for the year 1989.

NOTE 5

INCOME TAXES

Income tax provision consists of the following:

	Company			Predecessor Company
(Thousands)	Year Ended December 31, 1991	1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Federal—				
Current	$(14,225)	$ 5,090	$ 6,501	$ (4,724)
Deferred	(5,532)	(5,090)	(8,083)	(1,741)
Total Federal	(19,757)	—	(1,582)	(6,465)
Foreign	(7,440)	(14,455)	(9,239)	(4,082)
State and local	(916)	(100)	—	(449)
Income tax provision	$(28,113)	$(14,555)	$(10,821)	$(10,996)

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pretax income and the actual tax provision are as follows:

	Company			Predecessor Company
(Thousands)	Year Ended December 31, 1991	1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Statutory provision	$(26,849)	$(15,410)	$ (7,878)	$ (9,943)
Impact of foreign operations	3,933	5,362	233	(678)
Goodwill amortization	(4,783)	(4,759)	(3,462)	—
Additional depreciation expense resulting from the Acquisition	(1,707)	(1,707)	(1,280)	—
Percentage depletion	1,947	2,078	1,692	348
Other, net	(654)	(119)	(126)	(723)
Income tax provision	$(28,113)	$(14,555)	$(10,821)	$(10,996)

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The tax effect of timing differences relates to transactions recorded for financial reporting purposes in a period different from that in which such transactions are reported for income tax purposes. The nature of these differences and the tax effect of each were as follows:

(Thousands)	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Tax depreciation over book depreciation	$ (2,235)	$ (5,105)	$ (3,292)	$ (1,991)
Foreign exchange losses (deductible) not deductible for tax purposes	(613)	413	—	—
(Deductible) non-deductible adjustment for inventory valuation reserves	339	479	(1,818)	465
Provisions charged against book income, net	(2,822)	(1,005)	(2,853)	617
Other, net	(201)	128	(120)	(832)
Tax effect of timing differences	$ (5,532)	$ (5,090)	$ (8,083)	$ (1,741)

Prior to adoption of the Tax Sharing Agreement discussed below, the tax provision was calculated on a separate company basis. The accompanying financial statements do not give retroactive effect to the Tax Sharing Agreement prior to January 1, 1991. The Company has recorded a deferred tax liability which represents the amount of income taxes payable to GAF with respect to income already recorded in the financial statements but which will not become taxable until a future year.

The Company and each of its domestic subsidiaries have entered into an agreement ("Tax Sharing Agreement") with GAF and G Industries with respect to the payment of Federal income taxes and certain related matters. During the term of the Tax Sharing Agreement, the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes–*i.e.*, losses, deductions and credits (except for a limited amount of foreign tax credits and, in general, net operating losses), only at the time such attributes reduce the Federal income tax liability of the GAF group; and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the GAF group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an actual refund of tax from the Internal Revenue Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration.

The provisions of the Tax Sharing Agreement could result in the Company having greater liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each of its domestic subsidiaries are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries for prior years relating to the business or assets of the Company or any of its domestic subsidiaries; in addition, the other subsidiaries of the Company are responsible for their respective taxes. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

The Company and each of its domestic subsidiaries join in the filing of a consolidated Federal income tax return with GAF. As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are jointly and severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

Income taxes payable at December 31, 1991 include $1.4 million payable to the Company's parent.

In February 1992, the Financial Accounting Standards Board issued Statement No. 109, "Accounting for Income Taxes", which established financial accounting and reporting standards for the effects of income taxes. The new standard is effective no later than for the year 1993. At the date the Company adopts the new accounting rules, it may record the entire catch-up effect in that year or it may retroactively restate prior financial statements, including the financial statements presented herein. The Company does not anticipate that the implementation of this new standard will have a material adverse effect on its financial position or results of operations.

NOTE 6

INVENTORIES

A substantial portion of domestic inventories is valued using the LIFO method. As a result of the Acquisition, there is no material difference between inventories valued at LIFO and average cost.

Inventories consist of the following:

(Thousands)	December 31, 1991	1990
Finished goods	$58,995	$52,202
Work in process	18,196	14,535
Raw materials and supplies	16,645	16,979
Inventories	$93,836	$83,716

NOTE 7

PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consists of the following:

(Thousands)	December 31, 1991	1990
Land and land improvements	$ 40,414	$ 39,908
Buildings and building equipment	54,959	52,679
Machinery and equipment	263,784	239,623
Construction in progress	26,054	20,102
Total	385,211	352,312
Less accumulated depreciation	(46,474)	(28,275)
Property, Plant and Equipment, net	$338,737	$324,037

NOTE 8

LONG-TERM DEBT

Long-term debt consists of the following:

(Thousands)	December 31, 1991	1990
Intercompany Term Note	$300,995	$600,000
Borrowings under Intercompany Revolving Note	70,000	62,225
Industrial revenue bonds	3,551	4,001
Obligations on mortgaged properties	44,519	44,455
10 3/8% Senior Subordinated Notes due 1994	13,684	13,684
11 3/8% Senior Subordinated Notes due 1995	6,745	6,745
Unamortized discount	(90)	(116)
Total long-term debt	439,404	730,994
Less current maturities	(25,658)	(32,950)
Long-term debt less current maturities	$413,746	$698,044

See Note 17 for information in connection with the issuance of new debt and an amendment to the Credit Agreement discussed below, in March 1992.

The Company has entered into an Intercompany Credit Agreement with G Industries, pursuant to which the Company has the right to obtain loans and the issuance of letters of credit under the Credit Agreement dated as of September 17, 1990, as amended ("Credit Agreement"), between G Industries and the financial institutions party thereto (the "Banks") which makes available to G Industries a five-year $200 million combined revolving loan and letter of credit facility (subject to reduction by up to $50 million in January 1994). Pursuant to the Intercompany Credit Agreement, G Industries makes borrowings of revolving loans and obtains the issuance of letters of credit at the request of the Company. The proceeds of such borrowings are loaned by G Industries to the Company pursuant to an intercompany note (the "Intercompany Revolving Note") that mirrors the terms of the revolving credit facility under the Credit Agreement.

In addition, the Company is obligated pursuant to an intercompany note to G Industries for a term loan (the "Intercompany Term Note") under the Credit Agreement, of which $301 million is outstanding as of December 31, 1991 (see Note 2).

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The Intercompany Credit Agreement permits G Industries to incur "Affiliate Obligations" by obtaining the issuance of up to $50 million of letters of credit under the Credit Agreement for the benefit of certain subsidiaries of G Industries other than the Company and its subsidiaries (the "Non-ISP Letters of Credit") and by obtaining revolving loans under the Credit Agreement to pay reimbursement obligations arising in connection with drawings on Non-ISP Letters of Credit (the "Non-ISP Revolving Loans").

The Company and certain of its subsidiaries have guaranteed, on a joint and several basis, the assets of the Company and its domestic subsidiaries, and 65% of the capital stock of its foreign subsidiaries are pledged to the Banks to secure all of the obligations of G Industries under the Credit Agreement. The stock of the Company owned by GCC has also been pledged to secure all of G Industries' obligations under the Credit Agreement.

A default by G Industries in respect of any Affiliate Obligations, or by G Industries or affiliates of the Company with respect to covenants under the Credit Agreement or the guarantees, could result in the obligations under the Credit Agreement being accelerated. In addition, the Credit Agreement provides for a cross-default in the event of a default under certain debentures issued by G-I Holdings. In the event G Industries or any other party to the Credit Agreement fails to perform its obligations under the Credit Agreement, the Banks could require the Company and its subsidiaries to perform such obligations pursuant to the terms of their respective guarantees. In such event, the Banks could foreclose upon or sell the assets of the Company and its subsidiaries pledged as collateral (other than to recover amounts outstanding under the Affiliate Obligations). The Banks could also foreclose on the common stock pledged by GCC as collateral, in which event voting control of the Company and its subsidiaries could shift from GAF to the Banks or any party to which the Banks may subsequently transfer their interests in such stock.

In addition, under the Intercompany Credit Agreement, the Company may lend up to $50 million to G Industries and its subsidiaries. The Company has entered into an agreement with such subsidiaries pursuant to which it makes loans, which loans are payable upon demand and bear interest at market rates. The loans are evidenced by intercompany promissory notes that are pledged to secure the obligations of G Industries under the Credit Agreement.

The Intercompany Term Note matures on September 17, 1998 and the intercompany revolving notes are due and payable on September 17, 1995. Borrowings under the Intercompany Credit Agreement bear interest at a rate (8% on December 31, 1991) based on the Banks' base rate (as defined) or a Eurodollar rate (as defined), at the option of the Company.

A covenant in the Credit Agreement provides that the Company may not pay dividends (i) that exceed 10% of the Company's consolidated net income or (ii) upon the occurrence and during the continuance of an event of default under the Credit Agreement.

The Company is contingently liable under letters of credit issued on its behalf under the Intercompany Credit Agreement aggregating $19.5 million as of December 31, 1991.

As of December 31, 1991, after giving effect to $61.7 million of letters of credit outstanding at G Industries, and to outstanding borrowings, the amount remaining available under the Intercompany Revolving Note was $68.3 million.

In connection with the Acquisition, the Predecessor Parent Company conducted tender offers for its 11³/₈% Senior Subordinated Notes due 1995 and 10³/₈% Senior Subordinated Notes due 1994, and accepted for payment all validly tendered securities constituting approximately 95% and 91%, respectively, of each issue.

The aggregate maturities of long-term debt as of December 31, 1991 for the next five years are as follows:

(Thousands)	
1992	$ 25,658
1993	22,456
1994	42,068
1995	108,435
1996	4,955

In the above table, 1995 maturities include the $70 million of borrowings outstanding under the Intercompany Revolving Note as of December 31, 1991.

NOTE 9

BENEFIT PLANS

Eligible, full-time employees of the Company are covered by one or more of GAF's various benefit plans, including the GAF Capital Accumulation Plan for Salaried Employees, the Retirement Plan for Hourly Employees, and a nonqualified retirement plan for the benefit of certain key employees.

Defined Contribution Plan

The GAF Capital Accumulation Plan is a defined contribution plan for eligible salaried employees. The Company contributes 3% of participants' compensation, plus matching contributions up to an additional 4% of compensation for participants who make voluntary contributions. Each participant is fully vested at all times in the balance of his account. The aggregate contributions made by the Company to the plan and charged to operations were $2,832,000 for the year 1991, $2,770,000 for the year 1990, and $2,077,000 for the nine months ended December 31, 1989, and, by the Predecessor Company, $795,000 for the first quarter ended April 2, 1989.

Defined Benefit Plans

The Company participates in GAF's Retirement Plan for Hourly Employees (the "GAF Retirement Plan"), which is a noncontributory defined benefit plan. Benefits under this plan are based on stated amounts for each year of service. GAF's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which GAF may determine to be appropriate.

Because the Company participates in the GAF Retirement Plan, data presented below is for such plan as a whole.

GAF's net periodic pension cost for the GAF Retirement Plan included the following components:

	GAF			Predecessor Parent Company
	Year Ended December 31,		Nine Months Ended December 31,	First Quarter Ended April 2,
(Thousands)	1991	1990	1989	1989
Service cost	$ 891	$ 884	$561	$187
Interest cost	1,194	980	585	195
Actual return on plan assets	(649)	(530)	(256)	(85)
Net deferral and amortization	103	150	91	30
Net periodic pension cost	$1,539	$1,484	$981	$327

Pension expense charged to operations by the Company with respect to its participation in the GAF Retirement Plan was $1,035,000 for the year 1991, $811,000 for the year 1990, and $522,000 for the nine months ended December 31, 1989, and, by the Predecessor Company, $174,000 for the first quarter ended April 2, 1989.

The following table sets forth the funded status of the GAF Retirement Plan:

(Thousands)	December 31, 1991	1990
Accumulated benefit obligation:		
Vested	$13,080	$10,319
Nonvested	2,620	2,721
Total accumulated benefit obligation	$15,700	$13,040
Projected benefit obligation	$15,700	$13,040
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(9,204)	(6,719)
GAF's projected benefit obligation in excess of plan assets	6,496	6,321
Unrecognized prior service cost	(1,736)	(1,657)
Unrecognized net gain (loss)	(259)	(307)
GAF's unfunded accrued pension cost	$ 4,501	$ 4,357
The Company's portion of GAF's projected benefit obligation in excess of plan assets	$ 3,667	$ 2,392

The difference of $2 million between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1991 has been recorded by GAF as an unfunded liability. Of that amount, $1,145,000 has been recorded by the Company as a liability, offset by an intangible asset of $977,000 and a reduction of stockholders' equity of $168,000.

In determining the projected benefit obligation, the weighted average assumed discount rate was 8.75% and 9.25% for 1991 and 1990, respectively. The expected long-term rate of return on assets used in determining net periodic pension cost was 9% and 8% for 1991 and 1990, respectively.

GAF has a nonqualified defined benefit retirement plan for the benefit of certain key employees, including certain employees of the Company. Expense accrued by the Company for future obligations under this plan was $442,000 for the year 1991, $367,000 for the year 1990, and $329,000 for the nine months ended December 31, 1989, and, by the Predecessor Company, $61,000 for the first quarter ended April 2, 1989. Employees who participate in this plan are not entitled to have employer contributions made to their account under the GAF Capital Accumulation Plan.

Other Benefit Plans

GAF maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering. As a result, the Company's 1991 results reflect a one-time charge of $3.8 million, representing the Company's portion of the costs in connection with the plan termination.

In addition to providing pension benefits, GAF presently provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost to the Company of retiree health care and life insurance benefits for the year 1991, the year 1990, and the nine months ended December 31, 1989 approximated $1.9 million, $2.6 million and $1.5 million, respectively, and, to the Predecessor Company, $.6 million for the first quarter ended April 2, 1989.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new standard requires that the expected costs of these benefits be recognized in the financial statements over an employee's active working career. The Company presently recognizes this expense as claims are incurred. Adoption of the new standard is required no later than for the year 1993.

Adoption of the new standard will create a previously unrecognized obligation covering prior years with respect to both existing retirees and active employees. This obligation may be recognized in future financial statements in one of two ways: (1) by immediate recognition through a cumulative catch-up adjustment in the statement of income, based on the discounted present value of expected future benefits attributable to service rendered prior to adoption of the new standard, or (2) prospectively, by amortizing the obligation on a straight-line basis over the average remaining service period of active plan participants.

GAF's actuaries have made a preliminary review of the potential effects of the new accounting standard, using 1991 data. Their estimates are subject to change based on a number of factors, including changes in the assumed health care cost trend rate used in the calculations. Based on such review, GAF's postretirement benefit obligation at December 31, 1991, measured in accordance with the new standard, would be approximately $82 million, of which GAF has already provided approximately $9.3 million. If the new standard had been adopted prospectively in 1991, the actuaries estimate that GAF's pretax postretirement benefit expense provision for 1991 would have been approximately $12 million. GAF's pretax expense provision for 1991 was approximately $3.6 million, of which approximately $1.9 million was charged to the Company. The new accounting method will have no effect on the Company's cash outlays for retiree benefits.

NOTE 10

STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's common stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code ("Code") or "nonqualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the Fair Market Value (as defined in the 1991 Incentive Plan) of such shares on the date of grant.

During 1991, 836,948 options were granted at an exercise price of $12.25, all of which were outstanding at December 31, 1991. The term of each option is generally five years and 60 days. Options may not be exercised during the first year after the date of grant. Thereafter, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

Notwithstanding any other provision of the 1991 Incentive Plan, the Compensation and Pension Committee may prohibit the exercise of any or all options to purchase shares of common stock if it pays the option holder an amount equal to the difference between the aggregate Fair Market Value of the shares subject to such options and the aggregate option price. Such amount shall be paid in cash or any combination of cash and common stock at the election of the Compensation and Pension Committee.

NOTE 11

RELATED PARTY TRANSACTIONS

The Company sells mineral products to GAF Building Materials Corporation, a subsidiary of G Industries ("Building Materials"). Such sales by the Company totaled $30.7 million, $30.3 million and $22.4 million for the year 1991, the year 1990, and the nine months ended December 31, 1989, respectively, and, by the Predecessor Company, $6.6 million for the first quarter ended April 2, 1989. The amount receivable from Building Materials for such sales at December 31, 1990 was $3.4 million, while there was no receivable from Building Materials for such sales at December 31, 1991.

The Company has provided general management, financial, legal, computer, administrative and facilities services to Building Materials and GAF Broadcasting Company, Inc. ("Broadcasting"). Amounts charged by the Company to Building Materials and Broadcasting for such services were allocated based on the operating income of the Company in each year relative to the operating income of Building Materials and Broadcasting, and represent, in the opinion of management, a fair reflection of the costs of providing such services. Such charges by the Company aggregated $4.3 million, $4.5 million and $2.9 million for the year 1991, the year 1990, and the nine months ended December 31, 1989, respectively, and, by the Predecessor Company, $.7 million for the first quarter ended April 2, 1989.

The Company has entered into a three-year Management Agreement covering 1991–1993, pursuant to which the Company agreed to provide general management, financial, legal, computer, administrative and facilities services to GAF and its subsidiaries, including Building Materials and Broadcasting for annual management fees of $4.2 million and $139,000, respectively. Such fees will increase by 5% per year and can be adjusted in certain limited circumstances, including the occurrence of a substantial change in the scope or nature of Building Materials' or Broadcasting's business. In the event that the Company or its employees provide services to any of its other affiliates substantially greater than those provided in the past, such affiliate will reimburse the Company for the costs of providing such services.

In addition, the Management Agreement provides that the parties may pay certain of each other's expenses for their mutual administrative convenience until such time as such expenses can be directly billed or charged to the party which incurred them, so long as each party which incurs such expenses promptly reimburses the party which pays the costs thereof.

Tax Sharing Agreement. See Note 5.

Intercompany Credit Agreement. See Note 8.

NOTE 12

INVESTMENT IN JOINT VENTURE

Financial data presented below pertain to GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture between the Company and Hüls Aktiengesellschaft, which operates a chemical manufacturing plant in Germany. The results of this joint venture are accounted for by the equity method. The Company's equity in the earnings of GAF-Hüls is reflected as a reduction of cost of products sold in the Company's statements of income.

	Company			Predecessor Company
(Thousands)	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Income Statement data:				
Revenues: From the Company	$ 14,895	$ 22,256	$ 25,931	$ 5,983
From others	89,326	99,020	67,155	24,144
Total revenues	104,221	121,276	93,086	30,127
Costs and expenses	78,611	79,440	60,518	18,586
Operating income	$ 25,610	$ 41,836	$ 32,568	$ 11,541
Net income of GAF-Hüls for the period	$ 16,621	$ 19,530	$ 17,596	$ 6,232
Equity of the Company in earnings of GAF-Hüls	7,894	9,684	8,698	3,116
Cash Flow data:				
Cash Flows From Operating Activities:				
Net income	$ 16,621	$ 19,530	$ 17,596	$ 6,232
Depreciation/amortization	4,389	4,977	3,335	994
Working capital changes	3,028	(4,500)	4,947	(18,839)
Other, net	(140)	2,076	3,192	(837)
Total	23,898	22,083	29,070	(12,450)
Cash Flows From Investing Activities:				
Capital expenditures	(576)	(3,385)	(858)	(245)
Cash Flows From Financing Activities:				
Dividends paid	(22,788)	(23,461)	(634)	—
Other, net	(361)	1,876	1,667	(289)
Total	(23,149)	(21,585)	1,033	(289)
Net change in cash and cash equivalents	$ 173	$ (2,887)	$ 29,245	$(12,984)

(Thousands)	December 31, 1991	December 31, 1990	December 31, 1989	April 2, 1989
Balance Sheet data:				
Current assets	$ 53,611	$ 57,420	$ 60,612	$ 27,734
Noncurrent assets	57,137	61,043	56,997	54,599
Total Assets	$110,748	$118,463	$117,609	$ 82,333
Current liabilities	$ 9,879	$ 33,080	$ 40,649	$ 9,771
Noncurrent liabilities	16,357	16,916	15,280	13,755
Total Liabilities	$ 26,236	$ 49,996	$ 55,929	$ 23,526
Net assets	$ 84,512	$ 68,467	$ 61,680	$ 58,807
Equity of the Company in net assets of GAF-Hüls	41,588	34,003	30,690	29,352

NOTE 13

BUSINESS SEGMENT INFORMATION

	Company			Predecessor Company
(Millions)	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Net sales:				
Specialty Derivative Chemicals	$ 411.4	$ 396.8	$ 272.7	$ 92.2
Mineral Products	85.4	82.6	60.0	16.6
Other	29.0	32.3	22.0	6.1
Net sales	$ 525.8	$ 511.7	$ 354.7	$114.9
Operating income:				
Specialty Derivative Chemicals	$ 115.5	$ 108.1	$ 66.9	$ 25.8
Mineral Products	22.7	20.5	17.3	4.0
Other	2.3	4.5	5.1	1.2
Total operating income	$ 140.5	$ 133.1	$ 89.3	$ 31.0
Identifiable assets:				
Specialty Derivative Chemicals	$ 899.3	$ 885.9	$ 871.2	$285.9
Mineral Products	151.8	156.5	161.9	37.6
Other	23.6	22.1	24.7	26.7
Total assets	$1,074.7	$1,064.5	$1,057.8	$350.2
Capital expenditures:				
Specialty Derivative Chemicals	$ 29.7	$ 30.1	$ 16.9	$ 3.2
Mineral Products	4.5	4.1	4.2	0.4
Other	0.2	1.4	1.8	0.2
Total	$ 34.4	$ 35.6	$ 22.9	$ 3.8
Depreciation:				
Specialty Derivative Chemicals	$ 14.9	$ 14.5	$ 9.2	$ 1.7
Mineral Products	4.4	4.1	2.7	0.6
Other	0.4	0.2	0.1	—
Total	$ 19.7	$ 18.8	$ 12.0	$ 2.3

G-I_EPA0007646

NOTE

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GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

(Millions)	Company: Year Ended December 31, 1991	Company: Year Ended December 31, 1990	Company: Nine Months Ended December 31, 1989	Predecessor Company: First Quarter Ended April 2, 1989
Net sales:				
Domestic operations*	$ 278.0	$ 266.6	$ 192.2	$ 62.8
Europe**	173.9	174.2	115.3	36.5
Other foreign operations	73.9	70.9	47.2	15.6
Net sales	$ 525.8	$ 511.7	$ 354.7	$114.9
Operating income:				
Domestic operations	$ 71.4	$ 57.0	$ 45.4	$ 12.4
Europe***	55.2	58.3	28.2	14.3
Other foreign operations	13.9	17.8	15.7	4.3
Operating income	140.5	133.1	89.3	31.0
Interest expense and other, net	(61.5)	(87.8)	(66.1)	(1.8)
Income before income taxes	$ 79.0	$ 45.3	$ 23.2	$ 29.2
Identifiable assets:				
Domestic operations	$ 930.4	$ 928.7	$ 928.4	$236.9
Europe***	115.3	108.6	102.1	93.6
Other foreign operations	29.0	27.2	27.3	19.7
Total	$1,074.7	$1,064.5	$1,057.8	$350.2

**Net Sales–Domestic Operations exclude sales by the Company's domestic subsidiaries to foreign affiliates of $107.9 million for the year 1991, $88.8 million in 1990, $62.9 million for the nine months ended December 31, 1989, and $21.7 million for the first quarter ended April 2, 1989.*

***Net Sales–Europe exclude sales by the Company's European subsidiaries to domestic and other foreign affiliates of $13.6 million for the year 1991, $12.2 million in 1990, $12.9 million for the nine months ended December 31, 1989, and $5.3 million for the first quarter ended April 2, 1989.*

****Operating Income–Europe, and Identifiable Assets–Europe include the Company's 50% ownership of GAF-Hüls.*

NOTE

15

SUPPLEMENTARY INCOME STATEMENT AND BALANCE SHEET INFORMATION

(Thousands)	Company: Year Ended December 31, 1991	Company: Year Ended December 31, 1990	Company: Nine Months Ended December 31, 1989	Predecessor Company: First Quarter Ended April 2, 1989
Maintenance and repairs	$34,281	$30,839	$22,983	$5,990
Rental expense—Operating leases	5,291	3,958	2,669	1,093

Included in accrued liabilities in the Consolidated Balance Sheets as of December 31, 1991 and December 31, 1990 are approximately $6.5 million and $7.5 million, respectively, of accrued environmental remediation costs.

NOTE

16

COMMITMENTS AND CONTINGENCIES

GAF, G-I Holdings, G Industries, and GCC are presently dependent upon the earnings and cash flow of their subsidiaries (including the Company) in order to satisfy obligations as of December 31, 1991 in the amount of $14.3 million with respect to preferred dividends; $285.3 million principal amount of debentures on which interest is payable in the form of additional debentures through March 1994, after which interest must be paid in cash, and on which the interest rate was reset to 12.875% in September 1991; and approximately $137 million of various other liabilities including deferred taxes.

Asbestos Litigation Against GAF. GAF has advised the Company that GAF has been named as a co-defendant in approximately 69,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 73,000 other lawsuits involving similar claims. GAF has also advised the Company that GAF has been named as a co-defendant in approximately 37 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. GAF has informed the Company that substantially all of the liabilities, including expenses incurred by GAF to date in the asbestos-related lawsuits, have been paid by insurance and that it believes, based upon its financial resources, including insurance, that the continued defense and ultimate disposition of such lawsuits will not have a material adverse effect on GAF's business or financial condition. Neither the Company nor the assets or operations of the Company or GCC, which was operated as a division of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims. Nevertheless, the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation relating to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of Common Stock of the Company, and such enforcement could result in a change of control of the Company.

Legal Proceedings. The Company has certain liabilities under New Jersey statutes and regulations relating to the closing of its plant in Linden, New Jersey (the "Linden Site"). In June 1989 and June 1990, the Company entered into two Administrative Consent Orders (the "ACOs") with the New Jersey Department of Environmental Protection and Energy ("NJDEPE") under the New Jersey Spill Compensation and Control Act, among other New Jersey laws, which establish deadlines for the Company to (i) comply with surface water discharge standards and (ii) develop a remediation plan for the Linden Site. Pursuant to the latter ACO, the Company posted letters of credit aggregating $7.5 million to cover the anticipated costs of remediation; however, there can be no assurance as to the actual costs that will be incurred in connection with such remediation.

The Company is a party to a variety of proceedings and lawsuits involving environmental matters, including being named as defendant, respondent or a potentially responsible party, together with other companies, under CERCLA and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. These proceedings and lawsuits are, for the most part, in the early stages and, due to the practices of waste disposal haulers and disposal facilities prior to adoption and implementation of the environmental laws and regulations, evidence is difficult to obtain or evaluate.

The Company is seeking dismissal of a number of the lawsuits and proceedings on the ground that there appears to be no substantial evidence of the Company's responsibility for any hazardous waste present at certain of the sites in question. At each site, the Company anticipates, although there can be no assurance, that liability, if any, will eventually be apportioned among the companies found to be responsible for the presence of hazardous waste at the site. Based on facts presently available, it is not possible to predict the eventual cost to the Company in these matters. In the opinion of management, these matters should be resolved gradually over a period of years for amounts that in the aggregate will not be material to the business or financial position of the Company.

The Company has an agreement with its comprehensive general liability insurers to cover, under a reservation of rights, the majority of the Company's liability and expenses in connection with these administrative proceedings and lawsuits. Pursuant to the agreement, the insurers pay costs of the Company in defending these administrative proceedings and lawsuits and reimburse the Company for more than a majority of its liabilities. Each insurer who is a party to this agreement is rated at least "A" by a leading independent insurance rating service, as a result of which the Company believes that the insurers have the ability to make payments pursuant to the agreement, although no assurances can be given. The Company also believes that the amount of insurance available under the policies pursuant to which the expenses and liabilities are being paid will be sufficient to cover the Company's expenses and that portion of the Company's estimated liability agreed to be paid by such insurers. In addition, the Company has established a reserve to cover costs in connection with these administrative proceedings and lawsuits.

The Company has operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1991 were as follows:

(Thousands)	
1992	$2,605
1993	1,844
1994	1,225
1995	787
1996	543
Later years	1,221
Total minimum payments	$8,225

Based upon information presently available, management believes that the capital expenditures necessary in order to maintain the Company's compliance with environmental laws and regulations will not exceed $5 million for each of the next five years.

NOTE 17

SUBSEQUENT EVENT

In March 1992, two domestic subsidiaries of the Company (the "Issuers") issued $200 million of 9% Senior Notes (the "Notes"), due 1999. The Notes are guaranteed by the Company and all of its domestic subsidiaries (the "Subsidiary Guarantors"). The net proceeds from the issuance of the Notes were used by the Company to repay a portion of the Intercompany Term Note to G Industries, and by G Industries to repay a portion of the term loan under the Credit Agreement.

The Notes are general, unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the term loan and the combined revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of Building Materials, which are limited to $40 million). In addition, all liens on assets of the Company securing the Bank indebtedness were released, with the result that the remaining Bank indebtedness and the Notes rank pari passu.

As a result of the foregoing, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to $25.7 million, and the current portion of long-term debt as of December 31, 1991 has been adjusted to reflect such reduction.

Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and constitute all of the domestic subsidiaries of the Company. Financial information for the Company's foreign subsidiaries, including its investment in GAF-Hüls, is reflected in the following financial information on the equity basis of accounting.

COMBINED CONDENSED STATEMENTS OF INCOME
For the Issuers and the Subsidiary Guarantors

	Company			Predecessor Company
	Year Ended December 31,		Nine Months Ended December 31,	First Quarter Ended April 2,
(Millions)	1991	1990	1989	1989
Net sales	$385.9	$355.4	$255.1	$ 84.5
Costs and expenses:				
Cost of products sold	233.0	219.9	157.8	58.0
Selling, general and administrative	67.4	64.5	41.7	14.1
Goodwill amortization	14.1	14.0	10.2	—
Total costs and expenses	314.5	298.4	209.7	72.1
Operating income	71.4	57.0	45.4	12.4
Interest expense	(51.2)	(83.1)	(65.1)	(1.9)
Equity in income from foreign subsidiaries and 50% owned joint venture	52.4	61.0	36.9	14.9
Other expense, net	(1.1)	(4.0)	(3.3)	(0.2)
Income before income taxes	71.5	30.9	13.9	25.2
Income taxes	(20.6)	(0.1)	(1.6)	(7.0)
Net income	$ 50.9	$ 30.8	$ 12.3	$ 18.2

COMBINED CONDENSED BALANCE SHEETS
For the Issuers and the Subsidiary Guarantors

(Millions)	December 31, 1991	1990
Assets		
Current Assets:		
Cash and cash equivalents	$ 0.1	$ 5.0
Accounts receivable, net	28.4	40.0
Inventories	54.8	56.2
Other current assets	10.0	5.6
Receivable from related parties	6.6	3.4
Total Current Assets	99.9	110.2
Property, Plant and Equipment, net	331.1	316.9
Excess of cost over net assets of businesses acquired, net	488.4	502.4
Advances and equity in investment in foreign subsidiaries and 50% owned joint venture	116.0	86.8
Other assets	11.0	6.5
Total Assets	$1,046.4	$1,022.8
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt and current maturities of long-term debt	$ 0.6	$ 0.5
Current maturities of Intercompany Term Note	18.7	32.5
Accounts payable	27.2	29.1
Accrued liabilities	32.1	35.8
Income taxes	1.4	—
Total Current Liabilities	80.0	97.9
Long-term debt less current maturities	61.4	61.9
Intercompany Term Note	282.3	567.5
Borrowings under Intercompany Revolving Note	70.0	62.2
Deferred income taxes	39.1	33.5
Other liabilities	29.2	44.8
Stockholders' Equity	484.4	155.0
Total Liabilities and Stockholders' Equity	$1,046.4	$1,022.8

Combined Condensed Statements of Cash Flows
For the Issuers and the Subsidiary Guarantors

(Millions)	Company Year Ended December 31, 1991	Company Year Ended December 31, 1990	Company Nine Months Ended December 31, 1989	Predecessor Company First Quarter Ended April 2, 1989
Cash and cash equivalents, beginning of period	$ 5.0	$ 5.0	$ —	$ 7.5
Cash Flows from Operating Activities:				
Net income	50.9	30.8	12.3	18.2
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	18.5	17.3	10.9	2.1
Goodwill amortization	14.1	14.0	10.2	—
Deferred income taxes	5.5	5.1	8.1	1.7
(Increase) decrease in working capital	(3.0)	(0.3)	(20.2)	(9.0)
Change in advances and equity in investment in foreign subsidiaries and 50% owned joint venture	(29.2)	(8.0)	(26.4)	5.9
(Increase) decrease in receivable from related parties	(3.2)	3.5	(7.3)	3.9
Other, net	(12.8)	(4.0)	17.4	(0.7)
Net cash provided by operating activities	40.8	58.4	5.0	22.1
Cash Flows from Investing Activities:				
Capital expenditures	(32.7)	(33.7)	(21.8)	(3.8)
Acquisition of Predecessor Company, net of cash acquired	—	—	(585.3)	—
Acquisition of Sutton Laboratories, net of cash acquired	—	—	(32.0)	—
Net cash used in investing activities	(32.7)	(33.7)	(639.1)	(3.8)
Cash Flows from Financing Activities:				
Proceeds from initial public offering	281.3	—	—	—
Proceeds from debt incurred to acquire Predecessor Parent Company	—	—	611.1	—
Increase (decrease) in long-term debt	(291.7)	(5.0)	50.8	—
Change in cumulative translation adjustment	(0.2)	11.6	7.4	(2.9)
Dividends and distributions to GCC	(27.7)	(31.3)	(30.3)	(18.2)
Capital contribution by GCC	25.3	—	—	4.1
Other, net	—	—	0.1	—
Net cash provided by (used in) financing activities	(13.0)	(24.7)	639.1	(17.0)
Net change in cash and cash equivalents	(4.9)	—	5.0	1.3
Cash and cash equivalents, end of period	$ 0.1	$ 5.0	$ 5.0	$ 8.8

The advances and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the results of the wholly owned foreign subsidiaries of the Company and its 50% owned joint venture, GAF-Hüls (see Note 12). Profits in inventory on sales to the foreign subsidiaries and the joint venture have been eliminated. Operating income includes $30.1 million, $21.7 million and $14.9 million of profits on sales made to the foreign subsidiaries and the joint venture for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively, and, for the Predecessor Company, $5.5 million for the first quarter ended April 2, 1989.

Dividends received from these entities aggregated $40.1 million, $43.0 million and $14.7 million for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively, and, for the Predecessor Company, $.9 million for the first quarter ended April 2, 1989.

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Report of Independent Public Accountants

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and a wholly-owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1990 and 1991, and the related consolidated statements of income, stockholders' equity and cash flows for the nine-month period ended December 31, 1989 and the years ended December 31, 1990 and 1991. We have also audited the accompanying consolidated statement of income and cash flows of International Specialty Products Inc. Predecessor Company and subsidiaries for the first quarter ended April 2, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1990 and 1991, and the results of their operations and their cash flows for the nine-month period ended December 31, 1989 and the years ended December 31, 1990 and 1991, and the results of operations and cash flows of International Specialty Products Inc. Predecessor Company and subsidiaries for the first quarter ended April 2, 1989, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Arthur Andersen & Co.
Roseland, New Jersey
March 3, 1992

International Specialty Products Inc.

Supplementary Data (Unaudited)

Quarterly Financial Data (Unaudited)

	1991 By Quarter				1990 By Quarter			
(In millions, except per share amounts)	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	$138.7	$136.2	$128.5	$122.4	$134.2	$123.3	$129.2	$125.0
Cost of products sold	71.2	67.1	63.4	66.6	74.1	60.2	70.2	64.6
Gross profit	$ 67.5	$ 69.1	$ 65.1	$ 55.8	$ 60.1	$ 63.1	$ 59.0	$ 60.4
Operating income	$ 38.8	$ 40.6	$ 34.7	$ 26.4	$ 33.9	$ 35.8	$ 32.7	$ 30.7
Income before income taxes	$ 20.3	$ 22.7	$ 20.1	$ 15.9	$ 13.2	$ 13.5	$ 12.3	$ 6.3
Income taxes	7.4	7.9	7.1	5.7	3.5	3.6	3.5	3.9
Net income	$ 12.9	$ 14.8	$ 13.0	$ 10.2	$ 9.7	$ 9.9	$ 8.8	$ 2.4
Earnings per common share*	$ .16	$ .18	$ .13	$ .10	$ .12	$ .12	$ .11	$ .03

*In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the interim periods. Earnings per common share for each quarter of 1990 and the first and second quarters of 1991 were calculated based on the 80.5 million common shares outstanding prior to the initial public offering (see Note 2 of Notes to Consolidated Financial Statements), while earnings per common share for the third and fourth quarters of 1991 were calculated based on 99.9 million common shares outstanding after the initial public offering.

Board of Directors

Stephen A. Block
Senior Vice President,
General Counsel and Secretary,
International Specialty Products Inc.

Thomas C. Bohrer
President and Chief Operating Officer,
International Specialty Products Inc.

Charles M. Diker
Chairman of the Board,
Cantel Industries, Inc.

Carl R. Eckardt
Executive Vice President,
Corporate Development,
International Specialty Products Inc.

Harrison J. Goldin
Partner,
Goldin Associates, L.P.

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer,
International Specialty Products Inc.

Corporate Officers

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer

Thomas C. Bohrer
President and
Chief Operating Officer

Carl R. Eckardt
Executive Vice President,
Corporate Development

David I. Barton
Senior Vice President
and General Manager,
Specialty Derivative Chemicals

Stephen A. Block
Senior Vice President,
General Counsel and Secretary

James J. Strupp
Senior Vice President,
Human Resources

Arthur Dresner
Vice President and
General Manager,
Advanced Materials

T. H. King
Vice President and
General Manager,
Mineral Products

Raymond W. Smith, Jr.
Vice President,
International

Robert H. Steinfeld
Vice President,
Taxes

Jonathan H. Stern
Vice President
and Controller

Mark A. Presto
Treasurer

ISP Locations

United States

Manufacturing
Alabama, Huntsville
Kentucky, Calvert City
Missouri, Annapolis
New Jersey, Chatham
Pennsylvania, Blue Ridge Summit
Texas, Seadrift
Texas, Texas City
Wisconsin, Pembine

R&D
Alabama, Huntsville
Maryland, Hagerstown
New Jersey, Chatham
New Jersey, Wayne

Sales
California, Irvine
Illinois, Lombard
Maryland, Hagerstown
Michigan, Livonia
New Jersey, Bound Brook
New Jersey, Chatham
New Jersey, Wayne
North Carolina, Charlotte
Texas, Dallas

International

Manufacturing
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Singapore

R&D
Belgium, Sint-Niklaas
Great Britain, Guildford
Singapore

Sales
Australia, Silverwater, N.S.W.
Australia, Box Hill, Victoria
Austria, Vienna
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Ville St. Laurent, Quebec
China, Shanghai
France, Paris
Germany, Frechen
Great Britain, Guildford
Great Britain, Manchester
Hong Kong
Hungary, Budapest
Italy, Milan
Japan, Tokyo
Korea, Seoul
Mexico, Mexico City
Netherlands, Schiedam
New Zealand, Otahuhu
Portugal, Lisbon
Puerto Rico, Rio Piedras
Singapore
Spain, Barcelona
Sweden, Johanneshov
Switzerland, Zug
Taiwan, Taipei
Thailand, Bangkok

Affiliate:
GAF/Hüls Chemie GmbH
Marl, Germany

Shareholder Information

Annual Meeting
The 1992 Annual Meeting of Shareholders will be held at 10 a.m. Tuesday, April 28, at:
The Bank of New York
48 Wall Street, 11th Floor
New York, New York

Form 10-K
A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:
International Specialty Products
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470
(201) 628-4000
(800) 526-5315

Stock Transfer Agent and Registrar
The Bank of New York
101 Barclay Street
New York, New York 10286
(800) 524-4458

Investor Relations
Inquiries should be directed to:
Robert K. Steidlitz
Director, Investor Relations
International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470
(201) 628-3005

International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").

International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470